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and BUSINESS ANALYST

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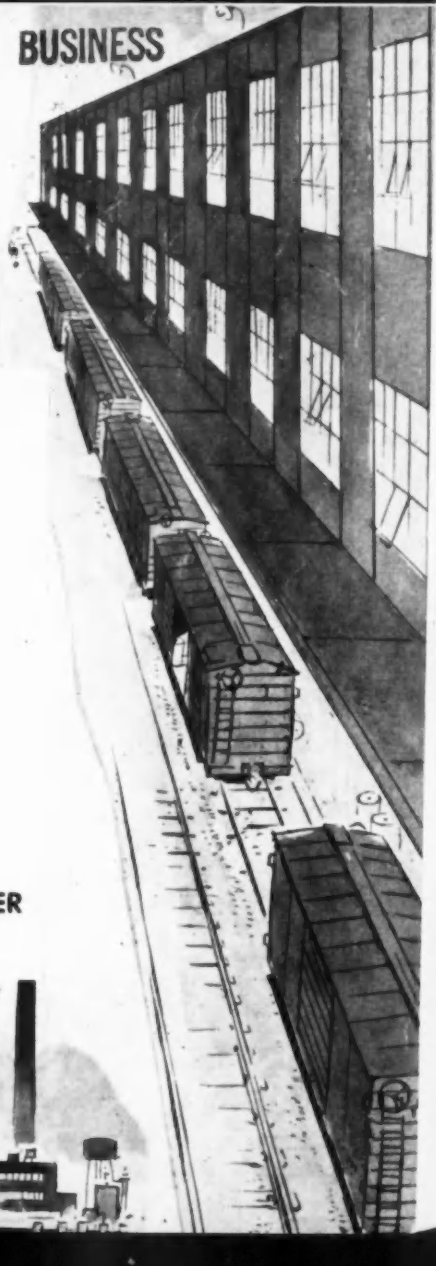

1957 Mid-Year Dividend Forecast

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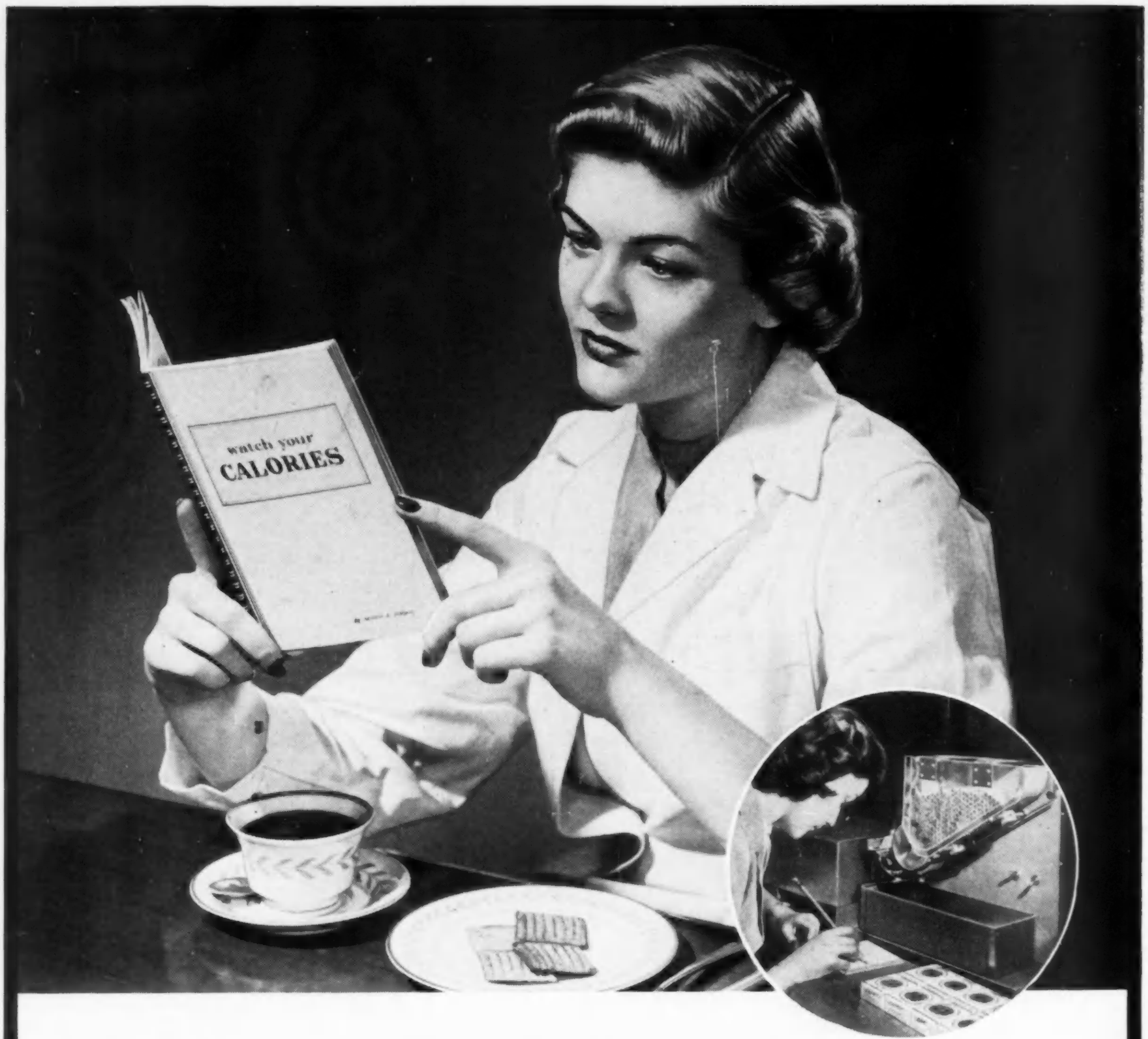
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THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

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THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*

The Trend of Events

EXIT THE PROGRESSIVE CONSERVATIVES . . . Washington is experiencing a slow-but-sure transition with conservatism on the decline, apparently for lack of militant champions. Departures from the Executive Department are becoming more numerous and replacements seem to lack the common ingredient that brought together the Cabinet, sub-Cabinet, and departmental leadership of the first years of Dwight Eisenhower. The Supreme Court of the United States has been turning out opinions that are baffling to laymen, disturbing to lawyers, and extremely disconcerting to Congress and law enforcement agencies.

And now the Cabinet of Progressive Conservatives is falling apart. It is customary for Cabinet officers to remain with the President during the first term. After that the non-professional politicians among them ask, and are permitted, to return to private affairs. Ike has been fortunate in having a Cabinet almost devoid of career politicians, dedicated to his crusade. But the break has come with retirement of Treasury Secretary George M. Humphrey. With him will go Rowland Hughes, Director of the Budget. Together they have been a team with the design and influence to protect sound money policies in all phases of Government operation. The new head of the fiscal department will be Robert B. Anderson, a recent convert (Texas style) to Republicanism, but only a few years removed from New Deal-Fair Deal affiliation. This is not to suggest that a return to the programs of John Snyder is ahead, but it is to note the possibility that Humphrey will be missed.

It is no secret that the Taft influence, which was spotted through the Eisenhower official family in the earlier years, is largely waning. And now with the retirement of John B. Hollister, director of the International Cooperation Administration, one-time law partner of Senator Taft and all-time political exponent of Taft ideals—the last of the Taft bloc is giving up high position in Washington. Strong Eisenhower supporters want to go it alone and "Taftites" are in a mood to let them.

In politics other shifts are taking place as well—for Congress has fallen into ways identified more with Roosevelt-Truman thinking than with Ike's. There are no 1958 coat-tails in sight and the roll calls suggest many of the GOP persuasion believe the best way to hold seats in normally democratic districts is to match, or better, the democrat platforms. The introduction of a never-defined "Modern Republicanism" has wracked Congress. The term is a fighting one among Republicans of the old school of lawmakers whose membership pre-dated the appearance of Eisenhower on the political scene.

The Supreme Court has not been beyond the touch of the move to the left. In fact it has led the march in some particulars. It's a more controversial tribunal today than it was when FDR tried to pack it in 1937. Chief Justice

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

Warren, an Eisenhower pick, votes with Justices Douglas and Black (Roosevelt selections) on labor issues and civil liberties questions; Justice William J. Brennan, most recent Eisenhower appointee, hasn't annoyed the American Civil Liberties Union by any of his rulings or votes. The Warren-Black-Douglas-Brennan team usually can count on either Frankfurter, from the FDR team, or Harlan, an Eisenhower choice, to round out non-conservative strength.

Perhaps the best appraisal of today's Supreme Court is found in the fact that the remaining conservatives in Congress have introduced a score of bills to overturn decisions of the highest tribunal in the land. One even suggested impeachment proceedings!

POLITICS ATTACKS THE AIRCRAFTS . . . Public hearings just begun before the Armed Services Sub-Committee will again study the Aircraft Engine Industry. This investigation was undoubtedly brought about by the hue and cry raised over the defense budget, and an attempt is being made to lay the blame for the high cost of defense expenditures on the companies that received the great bulk of government orders in the post-war years.

This is undoubtedly going to wind up in a long-winded rediscussion of ground that was originally covered by the previous investigations of 1955 and 1956.

Whatever the waste that has taken place, it is only logical that the responsibility should be equally shared between the procurement officers and the aircraft companies, for the Department of Defense urged the industry to go to any lengths to produce aircraft engines, even to the extent of encouraging them to hoard technical talent and labor so that they might be ready and able at all times to meet the demands for adequate National defense.

Naturally this was costly, and we think this investigation comes at a very late date indeed. A questionnaire has already been sent to 15 companies, with Wright Aeronautical, Pratt & Whitney, Westinghouse Electric and General Electric among the first to be called.

Each concern was requested to supply detailed information on their production, profits, etc., on all military contracts from 1952 through 1956. Representative F. Edward Hebert pointed out that the Air Force and the Navy spent about 2¼ billion dollars during the 1956 fiscal year, and probably a matching amount during the 1957 fiscal year.

The purpose of this investigation, the first of this sweeping nature ever made, is to determine a number of things, including (1) whether the Navy and Air Force are being charged an excessive amount of money: in other words, by the manufacturers reaping excessive profits—(2) whether greater economies can be obtained in the purchase of engines—and (3) whether the contracts for the procurement of these engines are adequate and suitable to protect the best interests of national defense.

This investigation is undoubtedly the first step toward renegotiation of contracts. However, it seems to us that in the light of the recent announcement of the cancellation of the Navaho missile, on which $500,000,000 had been expended that a more fruitful area of investigation would be in a reevaluation of the various research and development projects now in process. We doubt whether any amount of funds recouped through renegotiation could begin to equal the sum that would be saved in avoiding a recurrence of the Navaho affair.

In the official explanation on the Navaho, we are told that this development was originally initiated in 1946, and was based primarily on an earlier study of the art—a program which has since been replaced by the I.C.B.M. (Intercontinental Ballistic Missile) Program—and that the Navaho has contributed heavily through its rocket engine development to the I.C.B.M. Program—as well as to other projects through its Inertial Guidance System. And therefore, we are further informed that the $500,000,000 expended should not be considered a loss but rather money spent for superseded development from which useful benefits have been derived.

This is all very well, but will this explanation satisfy the citizens who are appalled to think that such enormous sums have been expended on a weapon that can never be used. The American taxpayers whose wallet was flattened to the extent of a half billion dollars for the Navaho project will not be convinced by the government's explanation. He will want to know if that missile was just a "dud, and if so, who was responsible.

THE PITY OF IT . . . The Byrd Committee study of Federal monetary policies is developing a political side show which confirms President Eisenhower's belief that the inquiry should have been made by an independent commission of appointed experts free of the distraction of the polling booth. Congress has feared political saturation and prejudgment of the issues if Rep. Wright Patman of Texas were permitted to conduct the review. Patman, always gunning for the Federal Reserve Bank Board and whoever else might stand in the way of easy credit, was sidetracked by a fast maneuver that put the whole business under the wing of Senator Byrd. There was a sigh of relief. Here, it was believed, was insurance of an objective study, by competent inquisitors, with the likelihood of definitive results.

Up to the present, the hopes have not been justified. Treasury Secretary George M. Humphrey has been virtually on trial on a bill of particulars ripped bodily out of 1956 campaign literature. After several days of listening to questions designed to prove failures and shortcomings rather than to compose future safeguards, Humphrey bristled. He is anxious to get away from the Treasury and into private business and wishes, he said, the Committee would get on with the business at hand. That business, as he conceived it, was finding holes if any exist in monetary policy and plugging them up, not attempting to discover methods of harnessing uncontrollable economic forces or, more aptly, assessing blame for the fact that they have not been harnessed heretofore.

Senator Byrd may well be, as many have said the best financial mind in Congress. He is a senatorial "specialist": he seldom introduces bills, enters debate or (*Please turn to page* 568)

As I See It!

By JOHN CORDELLI

AFTER KRUSHCHEV - - - ?

The recent upheaval in the Kremlin falls within a pattern characteristic of the rise, decline and fall of virtually every autocracy in history. From earliest times, the death of a dictator—or a leader of genius has been followed by a committee form of rulership in which the great man's less imaginative followers have attempted to reserve for themselves the rights of empire. However, since megalomania is a necessary part of a dictators psychological make-up, the lesser luminaries who invariably gather in his shadow lack the strength of purpose, the power of personality, the inherent genius—and at times the sheer ruthlessness necessary to maintain the status quo. Before long a power struggle develops in which each member of the ruling group jockeys for position and attempts to solidify his own best interests.

Viewed in historical context, Nikita Krushchev's apparent victory over his less fortunate co-heirs to the Stalin dynasty, may not be the last step in the power struggle, for history is replete with the interim successes of lesser men—and their eventual replacement by new men of genius—often, the man on horseback. It would not be surprising therefore if Mr. Krushchev is really cutting a path ahead of the on-rushing Marshall Zhukov, the hero of World War II, who's popularity with the Russian people is so great that only partial exile was able to soothe the ruffled ego of the canaical and self-centered Stalin.

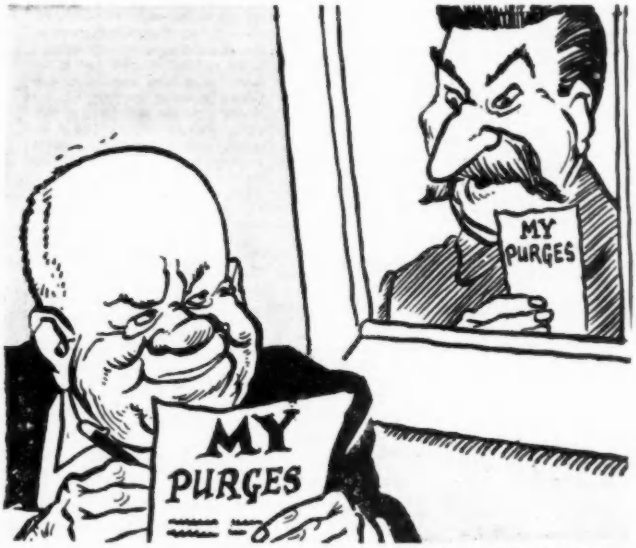
Krushchev's weaknesses as a man of destiny are apparent in his handling of the current crisis. His swift victory over the Molotov-Malenkov-Kaganovitch triumverate was followed by sharp accusations that Malenkov, in particular, had been guilty of an attempted coup-d'etat, and perhaps the more serious charge that he was guilty of capital crimes as an instigator of the Leningrad purges in 1949.

But apparently the victor is having difficulty devising a punishment to fit the crime—for his ears have been attuned to the short-wave communications from the outside world predicting a new blood bath within the Kremlin. Undoubtedly, a Stalin would have been insensitive to outside criticism, but Mr. Krushchev is not on the same firm ground in the midst of the unrest and rivalries at home—and the strong challenge to Soviet supreme rule from Chinese Mao Tse Tung, Yugoslavia's Tito and Poland's Gomulka.

In this latest version of Russian roulette, Krushchev's actual or potential challengers must now be legion. They include certainly the thousands of friends, supporters and proteges which the five deposed Presidium members installed in the Soviet bureaucratic apparatus during their long tenures in their exalted positions. They probably also include most of the remaining old-timers in the Soviet hierarchy who are likely to interpret the denouncement of men like Molotov and Kaganovitch, whose service to the party predates the revolution, and see it as a slur on the entire old guard, reared under the personal tutorship of Lenin. Above all, they doubtlessly include a goodly number of his present Presidium associates. For, Mr. Krushchev victory against the dissident element was by no means won hands-down. In fact, at one time in the course of the stormy top-level meetings of early July he commanded no more than a third of the Presidium's 11 votes. Four of the "rebels" (Shepilov had no vote in the Presidium) have now been removed and the Soviet Union's highest executive body is now packed with pro-Krushchev partisans. Yet, it still includes such key people as Bulganin, Voroshilov and Pervukhin (an alternate member) who at one time during the battle ranged themselves clearly with Kruschev's opponents. Neither he, nor they, are likely to forget this.

Finally, in the wings stands the imposing figure of Marshall Georgi K. Zhukov who almost single-handedly saved Krushchev from ending up where Malenkov did. Although Marshall Zhukov was awarded full membership in the Presidium for his 11th-hour rescue (*Please turn to page* 568)

LAST WEEK IN RUSSIA



Cummings in The London Daily Express

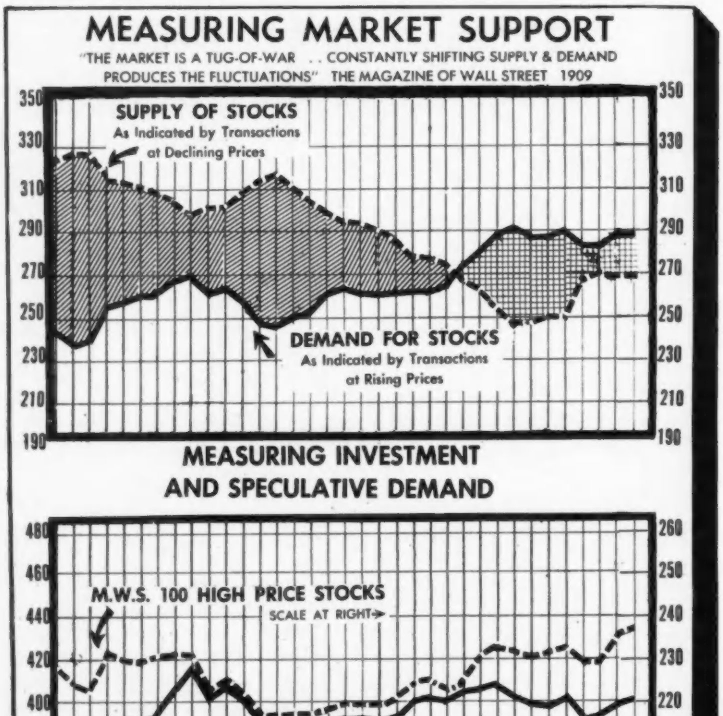
Market Weighs Inflation vs. Business Activity

As we go to press the industrial list is in the immediate vicinity of its 1956 bull-market top, which is a theoretical testing point. Regardless of the early outcome, realistic appraisal argues for a continuing moderate-range, selective market rather than for sustained and broad advance. There are some indications of excess. They call for more, rather than less, caution and discrimination at this point.

By A. T. MILLER

Stock market performance over the last fortnight has been relatively strong—and certainly gratifying to those who have a vested interest in arguing for higher and higher prices—despite some limitations. The Dow industrial average gained 17.48 points, to close last week at 520.77 or within small fractions of last year's April and August double tops of 521.05 and 520.95, respectively.

Considerably increased resistance was encountered as the old top was approached. Thus, over three-quarters of the gain cited was scored in persistant, spirited advance in the week ended July 5; whereas last week, while ending on an up beat, the market blew hot and cold. The industrial average was up Monday, off Tuesday, up Wednesday, off Thursday, up Friday. Trading volume increased materially, although not inordinately as judged by older standards. In some respects the party reached the boisterous – and possible climactic – stage: particularly in daily up and down gyrations on the order of 5 to 10 points in some stocks in exaggerated response to news or rumors.



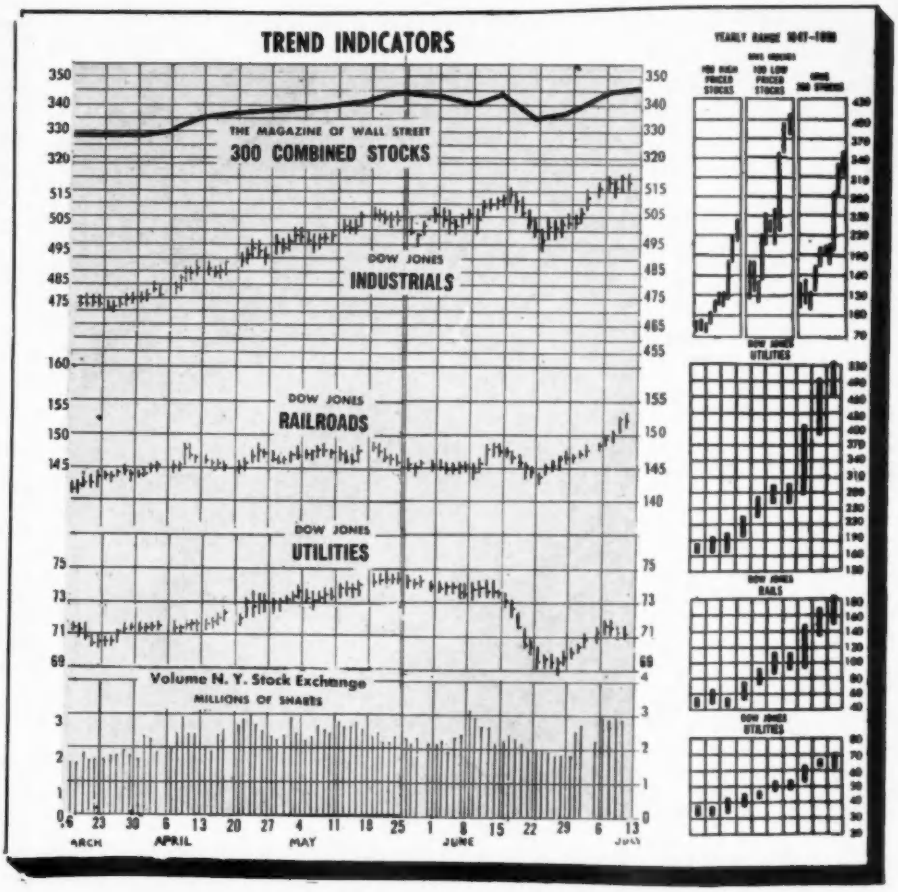
The Technical Picture

Of course, it remained "a market of stocks". Reflecting a generally closer balance between demand and supply, almost as many individual stocks lost ground in the week to July 12 as gained, whereas in the prior week gains exceeded declines in a ratio a little better than 2½ to 1. In both weeks less than 15% of total listed Big-Board stocks recorded new highs even for 1957; and appreciable, though smaller, numbers sagged to new lows. The rail average extended its June 13 rally high by almost 3%. It remains in roughly the upper one-third area of its moderate 1957 range to date; and (at 152.51 at last week's close) is far below its May, 1956, high of 181.23. The utility average has so far made up less than half of its recent dip (May 21 to June 26) of 5.24 points or about 7%.

For the industrial average, here is the broad picture: (1) a decline of 12.7% from 1956 high to the February, 1957 low; (2) an upswing, in a partial recovery, of 12.8% to the June 17 recovery high; (3) a fast correction which by June 24 cancelled over a fourth of the February-June rise, thus putting the market in an improved technical position to exploit the tradition of seasonal summer strength; (4) the subsequent renewed rise, which has extended the June recovery high by roughly 1.5% and the net advance from the February low point to about 14.5%.

As we have pointed out before, the average investor today is more inter-

ested in values and prices of individual stocks than in "penetrations" of technically-indicated supply or support levels by the averages. Hence, the possible significance of a clear-cut betterment by the industrial average of its 1956 top could be exaggerated. There is more reason to think that it ought to be climactic than for assuming major further rise – unless stock buyers, on average, are going to be a good deal less realistic than they have been heretofore in the selective, moderate-range market of the last two years or so.



Strictly speaking, the decline to the February low amounted to a bear market. In that interpretation, the 1956 highs are now beside the point; and this might be viewed in later perspective as a new bull market. For all practical purposes, however, it probably makes more sense to figure it as a limited-swing market. The fact is that stocks were generally cheaply - to - reasonably priced on earnings, yields and relation of yield to bond yield for rather extended periods of the advances from the 1949 and 1953 lows, at which yields on representative industrials exceeded 7% and 6%, respectively. They are around 3.5% now and range from 2% to less than 1% in the case of a number of popular growth stocks, many of which suffered declines of 25% or more from generally similar levels of over-evaluation at their 1955-1956 highs.

On average, price-earnings ratios are about as high as they have been in the upper reaches of past bull markets prior to cyclical downturns in earnings. They are very high in the case of a number of presently popular stocks; low-to-moderate mostly in the case of unpopular stocks. It is true that a cyclical shrinkage in earnings and dividends is not now foreseeable – but neither is marked improvement in either. There is debate about a fourth-quarter upturn in industrial production and its possible scope; about money-rate prospects and possible Federal Reserve credit moves. But the picture is not dynamic. It is beyond credulity that we will soon have another industrial boom superimposed on the present flattened-out capital goods boom.

In short, the statistical facts of over-all business activity, earnings and dividends are not greatly different now from what they were at the 1956 highs in the averages or at the February lows. There is greatly increased emphasis on price inflation–though it is less strong so far this year than it was in the late summer and closing months of 1956, when the stock market was easing or backing and filling in trading-range swings. Inflation is no foolproof argument for stocks and is largely a matter of supply-demand and of varying degrees of price controlability in different lines. Inflation is not preventing price cuts in the oil industry. Inflation is not giving investment allure to the copper, paper, air line, machinery, meat packing or aircraft stock groups, to mention only a few. And inflation is no guarantee of further big profits in over-priced growth stocks.

So what has changed since February when the industrial average was 66 points lower than it is now? Answer: investment-speculative sentiment. Will the latter stay bullish and get decidedly more bullish? Answer: probably not, in the absence of boom prospects for business, earnings and dividends; or of a marked speed-up in inflationary tendencies. Of course, this view could be wrong. Bullish (or bearish) sentiment can run to extremes. But it is risky bet on a bullish extreme. It amounts not to buying good values but to buying with hope of selling to some more foolish buyer at a later time.

Machinery orders suggest that the capital-goods boom is subject to some abatement ahead. Whether improvement in the automotive and/or housing fields could be a more than an ample offset is presently conjectural. Suggesting excessive anticipatory borrowing, new financing has been running ahead of year-to-year gains in plant-equipment outlays and in both public and private construction. To sum up: the bull side seems over-confident. The industrial average may go moderately above its 1956 high, with increasing vulnerability. We do not see a sound basis for "another big bull market." —Monday, JULY 15.

IF DISARMAMENT COMES—

Its Challenge to American Industry —and the Impact on our Economy

By HOWARD NICHOLSON

Currently, the United States Government is spending something in the neighborhood of $3.7 billion a month on programs related to national security. Of this amount, about $3.0 billion represents the so-called "direct defense" outlays of the Defense Department. This includes the military payroll and operating expenses; but about two-thirds of the total represents defense procurement—the purchase of defense "hard-goods" such as tanks and planes, soft goods such as food and petroleum supplies, and construction of military facilities.

Few observers of the American industrial scene today would disagree with the statement that the procurement outlays of the Federal government for defense purposes are now a strong and influential tide running throughout the system. The impact of defense business has certainly differed widely from industry to industry, and even from region to region; but there is hardly an industry or region which has not felt its presence in some degree. Almost a decade of international tension, accompanied by a fantastically rapid pace of military technology, particularly in atomic physics and electronics, have woven defense deeply into the fabric of national

business.

What would happen to the fabric if these fundamental threads were to be suddenly cut and withdrawn?

That is the question raised by the obviously intensifying international disposition toward disarmament. The question has many facets; there are in it vital implications for investors, for business managers, for consumers, for government administrators,for foreign traders. There are many who believe that the course of American business as a whole is now so dependent on defense that the defense trend and business trend are virtually interchangable terms. To the extent that this is true, the defense outlook is an acute forecasting problem affecting all phases of individual enterprises, not just their defense business alone.

The subject thus obviously deserves exploring, it has deserved it all along, but the mutual international problems raised by an armament race under today's technological conditions are growing so ominous and so clear that the subject is now a matter of near-term interest. Such an exploration, however, requires two definite preliminary statements, if it is not to be misinterpreted.

The Businessman and Defense

In the first place, the position of the average businessman with respect to defense business needs to be put clearly. In his general capacity as citizen, nobody pays a higher price for national defense than the businessman himself. His taxes—both his personal taxes and his corporate tax bill—have been violently swollen by defense outlays. The greater his personal success, the greater his personal tax bill. And he has long since found that the federal government is now thoroughly experienced in extracing the so-called "excess profit" from defense business. Virtually all corporations doing business with the government report that their margins on government business are substantially less than on private business. Cost-plus, renegotiation, and the ever-present threat of excess-profits tax legislation, virtually guarantee that the federal government will recoup the bulk of any "excessive" earnings attributable to military business. Even apart from the sociological conditions of the businessman as citizen —his characteristic status as property-owner and family head—the businessman has little special stake in an armament race.

On the other hand, business has, under the compulsions of an armament race, undertaken to produce armaments. To produce armaments requires plant and machinery. Some of the cost of plant and machinery devoted to armament has been shared by the government (through accelerated tax write-off provisions), and a little of it has been borne

Expenditures and Obligations of the Defense Department

FISCAL YEARS

(Millions of dollars)

Expenditures	Yearly 1954	1955	1956	August, 1956 – February, 1957 (at annual rates) August	September	October	November	December	January	February
Total Major Procurement and Prod.	$15,957	$12,996	$12,182	$12,143	$11,552	$13,921	$13,912	$14,554	$14,188	$14,725
Aircraft	8,334	8,037	7,145	8,140	6,501	8,555	8,398	7,963	8,183	8,516
Ships and Harbor Craft	1,090	1,008	895	905	741	832	702	982	980	895
Combat Vehicles	676	739	48	274	227	415	182	595	300	314
Support Vehicles	240	296	189	30	107	240	56	133	144	113
Artillery	186	17	27	– 53	29	41	9	91	65	– 45
Weapons	–145	– 92	–164	–181	– 33	18	82	39	16	49
Ammunition	2,942	818	1,379	1,076	647	941	288	859	–1,298	2,449
Guided Missiles	298	568	1,168	1,523	1,702	1,603	2,012	2,154	2,093	2,325
Electronics & Communications	826	636	770	285	954	634	1,383	813	1,099	999
Prod. Equip. and Fac.	1,121	631	440	290	406	471	489	536	478	429
Other Major Proc. & Prod.	387	335	281	–150	267	167	302	386	2,124	–1,323
Obligations										
Total Major Procurement and Prod.	$ 4,322	9,648	12,891	680	455	1,848	2,440	1,152	382	2,339
Aircraft	2,205	4,280	7,328	173	– 41	71	– 29	60	16	104
Ships and Harbor Craft	536	894	1,222	—	– 1	5	– 8	6	—	–131
Combat Vehicles	–285	372	– 5	– 69	99	31	20	–192	12	275
Support Vehicles	–255	100	238	628	–154	380	50	2	15	368
Artillery	51	102	35	19	31	11	18	– 12	36	23
Weapons	55	97	10	3	—	12	– 4	73	23	5
Ammunition	469	998	1,101	–287	177	290	982	196	– 25	398
Guided Missiles	634	1,014	1,446	65	96	834	1,192	762	112	1,095
Electronics & Communications	313	1,037	960	157	165	108	145	215	74	88
Prod. Equip. and Fac.	250	372	232	– 24	73	92	46	20	70	63
Other Major Proc. & Prod.	295	378	321	12	7	9	27	19	45	48

Negative figures indicate cancellations, or accounting adjustments.
Source: Defense Department.

entirely by the government. But a reduction in armament business would nevertheless leave these plants high and dry—and, in fact, hotly competitive with plants producing consumer goods. Temporary over-capacity is thus the underlying threat raised by the possibility of disarmament. It would be welcomed, of course, but prudent managers (and prudent investors) have a responsibility to minimize the disruptions which would accompany it. This accounts for the mixture of delight and worry with which the businessman greets disarmament; and it accounts for the special reaction of investors in the securities markets.

The Disarmament Outlook

A second set of considerations that must be preliminary to any discussion of the economies of disarmament revolves around the probable form and pace which arms limitations may take. This is largely, although not entirely, an international diplomatic question, but some reasonable assumptions regarding it may nevertheless be made. In the first place, it is clear that on both sides the effort is taking the form of reducing *output* of arms—nuclear arms, of course, in particular. It would appear to be virtually impossible to arrest the *technological* race, with the one exception of the testing of nuclear devices. The race is thus being withdrawn from the factory, and centered in the research laboratory. This is a vital distinction. It means, for example, that while steel and aluminum may be in much easier supply in the future, engineers are likely to be in tight supply for the foreseeable future.

The National Security Share of National Output

	Gross National Product (billions $)	Govt. Purchases for Goods & Service National Sec. (billions $)	National Security, as % of all Output
1953	363.2	51.5	14.2
1954	360.7	43.0	11.9
1955	390.9	41.2	10.5
1956	412.4	41.6	10.1
1957			
1st Q, annual rate	427.1	45.0	10.5

Reduction in actual defense *procurement,* while continuing defense *research,* could be accompanied by very substantial reductions in defense outlays, and by a considerable freeing of plant and equipments in both defense and raw materials industries. But how rapidly can this situation develop? After World War II, the American armament industry was virtually disbanded overnight, along with the army itself. But that was disarmament in the afterglow of victory. Anything approaching this root-and-branch disarmament is now clearly out of the question. In fact, "disarmament" is probably the wrong word for what can be expected; preferable would be the phrase "arms limitation" which was current during the 'thirties. No crash program of demilitarization is in sight; what *is* in sight is the beginning of control over the headlong, self-generating torrent of production, as prototype moves into production and then is replaced by a new, more advanced, more deadly prototype.

Moreover, the present scope of disarmament discussions is concerned chiefly with nuclear armaments, and only secondarily with conventional armament (aircraft, ground-force equipment). Progress here will almost certainly be slow, since limitations on nuclear armament necessarily increase the dependence of all countries on equipment for conventional-type warfare. (For example, Britain's decision several months ago to virtually scrap its conventional military forces, in order to concentrate on nuclear forces, might not have been made in today's atmosphere).

All of this suggests that "disarament" has a slow course of "arms limitation" to follow in the years ahead—assuming, of course, that world tensions are relaxed sufficiently to foresee any future disarmament at all. It will not be the overwhelming national demilitarization that occurred in late 1945 and 1946 in this country. It will not even be the sharp turn-around in spending that struck the defense department in late 1953 and 1954, when the end of the Korean war was accompanied by a massive rescheduling of defense production. Painful, slow, halting is the pace of international agreements; painful, slow and halting will be the pace of disarmament.

Disarmament and the Business Trend

How would such a gradual reduction in defense demand strike the American economy? How would business in general fare? And how would it affect individual industries, individual companies?

The effect on the nation's business, as a whole, is likely to be moderate, but extended and pervasive. It will be moderate, because the actual dollar decline in government demand would itself be moderate. It would be prolonged because disarmament under present realities would itself be prolonged. And it would be pervasive because there is now available little in the way of a pronounced offset to declining defense spending.

The major key to the impact of a reduction in defense spending today is that for almost five years the nation has had its guns and its butter too. In industry after industry—even in industries closely related to defense itself—our capacity has been able to supply all defense needs *and* all private needs. In fact, our capacity currently is adequate to supply both these needs, and leave a great deal of idle capacity.

When military production collapsed in 1945 and 1946, the American economy had been starved for consumer goods for over five years; tremendous backlogs of demand existed for automobiles and other consumer durables. Even soft goods were in short supply; the textile pipeline had to be refilled all over again, after five years of producing largely military and industrial fabrics, and heavy uniform constructions. For the businessman ready to convert back to consumer goods, the market had been well built up in advance.

Even for capital goods the market had been well established. True, the collapse of defense production freed a tremendous amount of metal-working machinery, which hung (*Please turn to page* 561)

Comparative Investment Study of—

2 Industrial Giants International Nickel — International Paper

By CALEB FAY

Between International Paper and International Nickel the investor has not had an easy choice. Both stocks are currently selling at approximately the same price, although International Nickel is down only 10 points from its high, while International Paper is down some 40 points. Both are true blue chip equities, highly regarded by institutional investors. Both have a simple capital structure and are free from funded debt. Each has a virtually impregnable financial position. Dividends paid by each are modest and yield based on present market prices is in line with other high grade stocks. Each is an undisputed leader in its field and likely to remain so in the foreseeable future. They both have long, uninterrupted dividend records. Expansion of operations, calling for huge capital expenditures has been financed internally through depreciation reserves and retention of earnings without recourse to the outside capital market.

There is of course no similarity in their activities which are in different fields. International Paper with its subsidiaries and affiliates is the world's largest paper making organization with a production of nearly 4,750,000 tons of paper, paperboard and market pulp in 1956. This came to about 15% of the total output of the industry. Inco, on the other hand is strictly a mining company, the world's largest nickel producer, a major world copper producer, and an important supplier of the platinum metals obtained as by-products from its nickel-copper ores.

Expansion Confined To Their Special Fields

However both companies have commendably used the same general approach for expansion and diversification. They have stuck to the fields they know intimately where they could utilize their own knowledge and personnel to major advantage and thus far have refused to step outside. Expansion has been confined to acquiring facilities for furthering their own major production whereby the existing production programs would be supplemented with related products or by providing raw materials for larger

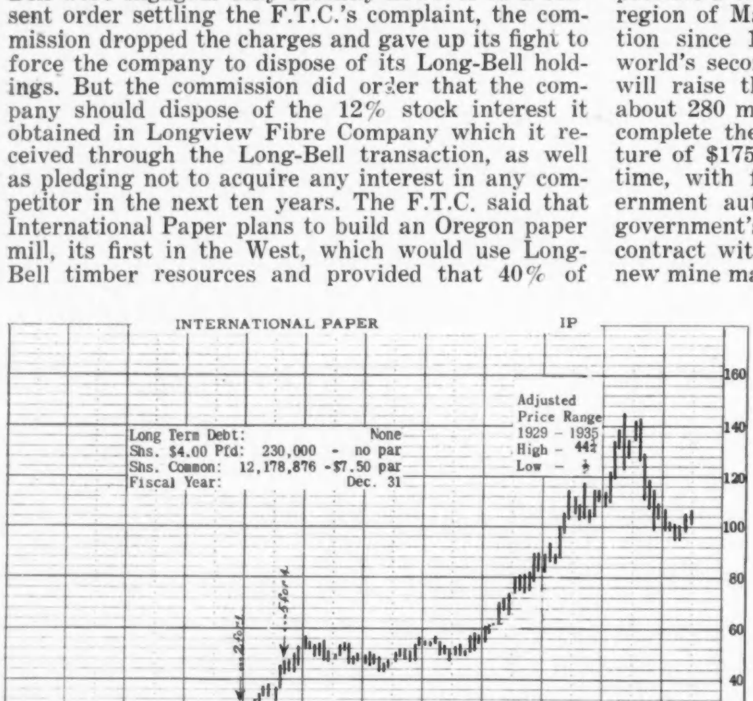
output. Inco is prepared to pour over $175 million into its new Mystery Lake development for nickel but it hasn't been tempted to embark in oil or uranium. Yet it has not hesitated to spend other millions to bring new nickel mines in the Sudbury area into production as well as prospecting for nickel in such widely separated areas as the Northwest Territory, Australia, Africa, and the Philippines. Always the primary objective has been nickel, and they have had the advantages of new ventures developed from by-products of the nickel and smelting operations.

Following a similar concept International Paper has expanded always within its own field or into one directly or indirectly connected with its own production. The most recent instance was its acquisition of the long-Bell Lumber Company in the Pacific Northwest through issue of 849,416 shares of its stock for substantially all the stock of the Long-Bell concerns. Its purpose was to own paper board and paper-making facilities in the Northwest area, backed by ownership of substantial timber resources which would provide a vital source of supply of pulpwood. Long-Bell is the second biggest lumber producer in the Northwest. This merger ran into immediate trouble when the Federal Trade Commission brought anti-trust charges against the company under the Clayton Act, asserting the effect of the merger might be substantially to lessen competition with lines in which the company and Long-Bell were engaged. Only recently however in a consent order settling the F.T.C.'s complaint, the commission dropped the charges and gave up its fight to force the company to dispose of its Long-Bell holdings. But the commission did order that the company should dispose of the 12% stock interest it obtained in Longview Fibre Company which it received through the Long-Bell transaction, as well as pledging not to acquire any interest in any competitor in the next ten years. The F.T.C. said that International Paper plans to build an Oregon paper mill, its first in the West, which would use Long-Bell timber resources and provided that 40% of the new mill's output should be earmarked for western independent non-integrated purchasers. However, this demand by the government is not considered too burdensome on the company.

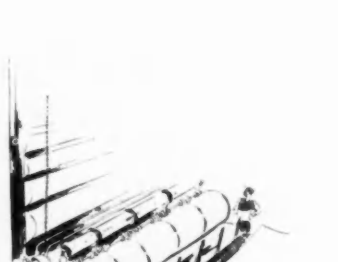
More than half of the nearly $100 million appropriated in 1956 for new production facilities went for the bleached kraft paperboard and newsprint mill at Pine Bluff, Arkansas. This mill will be in operation before 1958. The new machine at Mobile with 115,000 ton capacity, began production early this year. Jointly with the Pine Bluff installation the company can supply the rapidly growing market for newsprint in the South. In the North, a new 60,000 ton machine is being added to the Hudson River mill at Corinth, N. Y. for production of slick paper for use in illustrated magazines. The net results indicate that sales by the company in 1957, including Long-Bell, should be in excess of $1 billion compared with $969.6 million in 1956. Because of start-up expenses at the new plants normal profit margins are unlikely to keep pace with increased sales until later in the year.

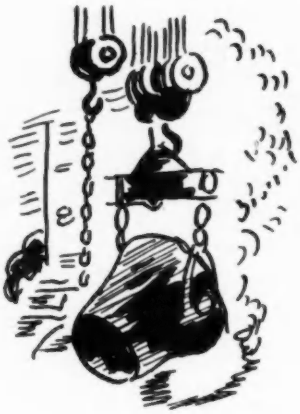
Inco's Position

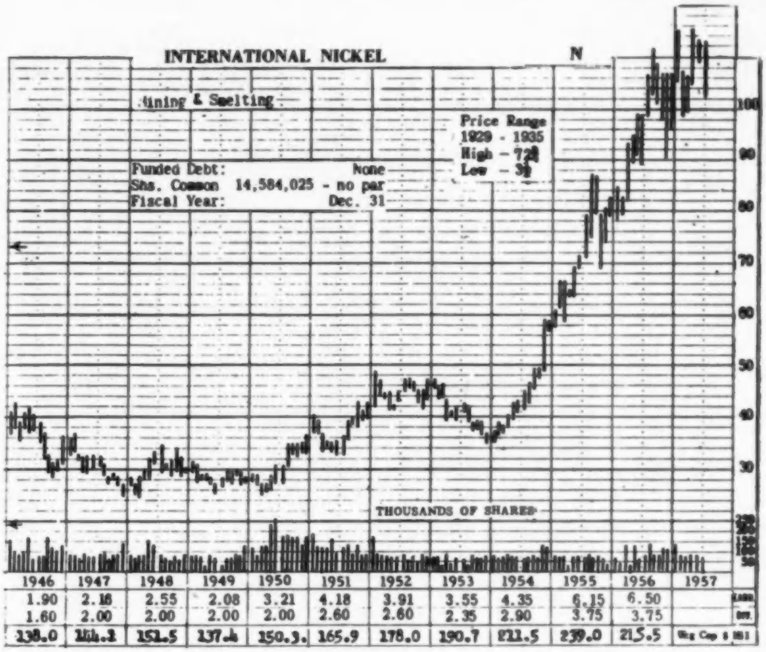
1956 was a memorable year for Inco. Never content with its position of supplying about 65% of the world production of nickel, the company climaxed a ten year search for new nickel deposits by announcing that it will develop as quickly as possible a series of new mines in the Mystery Lake region of Manitoba which had been under exploration since 1946. This is destined to become the world's second largest nickel mining operation and will raise the company's annual production from about 280 million pounds a year to 385 million. To complete the project will mean an initial expenditure of $175 million and take three to four year's time, with full cooperation of the Canadian Government authorities. However, the United States government's refusal to enter into a stock-piling contract with them for some of the output of this new mine may slow up the development process, and



* Plus stock dividend. (a) First quarter.







the additional ore forthcoming may exercise a depressing effect on nickel prices. It is estimated by the company's engineers that the nickel content of the ore will compare favorably with the famous Sudbury Basin, present site of the company's nickel production, but the copper content will be smaller in comparison with the other.

Nickel and Copper Dominate Inco's Production

Inco's production from Sudbury is by no means confined to nickel. In 1956 the company delivered 286 million pounds of nickel, 271 million pounds of copper, 1.5 million pounds of cobalt, nearly 40,000 ounces of gold, over 371,000 ounces of platinum metal, and about 1,300,000 ounces of silver, all obtained from the same Sudbury ore. In this imposing list the value of the nickel production easily dominates with about 55% of the total. Copper, aided by its record high price last year, contributed 33% and platinum metals about 10%.

Ratios won't be the same in 1957. The nickel price was raised from 64 cents to 74 cents a pound late in 1956, but the copper price which averaged 41.2 cents in 1956 has dropped dismally, below 30 cents a pound today. In 1956 the value of the nickel content in the company's shipments of refinery products, rolling mill and foundry products, and salts and chemicals was about $185 million compared with the value of the copper shipments $111 million, or about 67% larger value. In 1957 assuming the 74 cent price is not changed during the rest of the year and that copper recovers to about 30 cents a pound with unchanged production, the nickel output could be worth $211.6 million, but copper production would gross no more than $81 million. It would follow that the value of the nickel output would be almost 2¾ times the copper production. Put in another way, the gross value of the nickel and copper shipments in 1956 on metal content only approximated $296 million. In 1957 on the same assumption the two metals might gross $292 million. It is evident that the higher price that now prevails for nickel should compensate in large degree for the lower prevailing price of copper. As Inco does not report production of metals but only shipments these figures are only approximate projections.

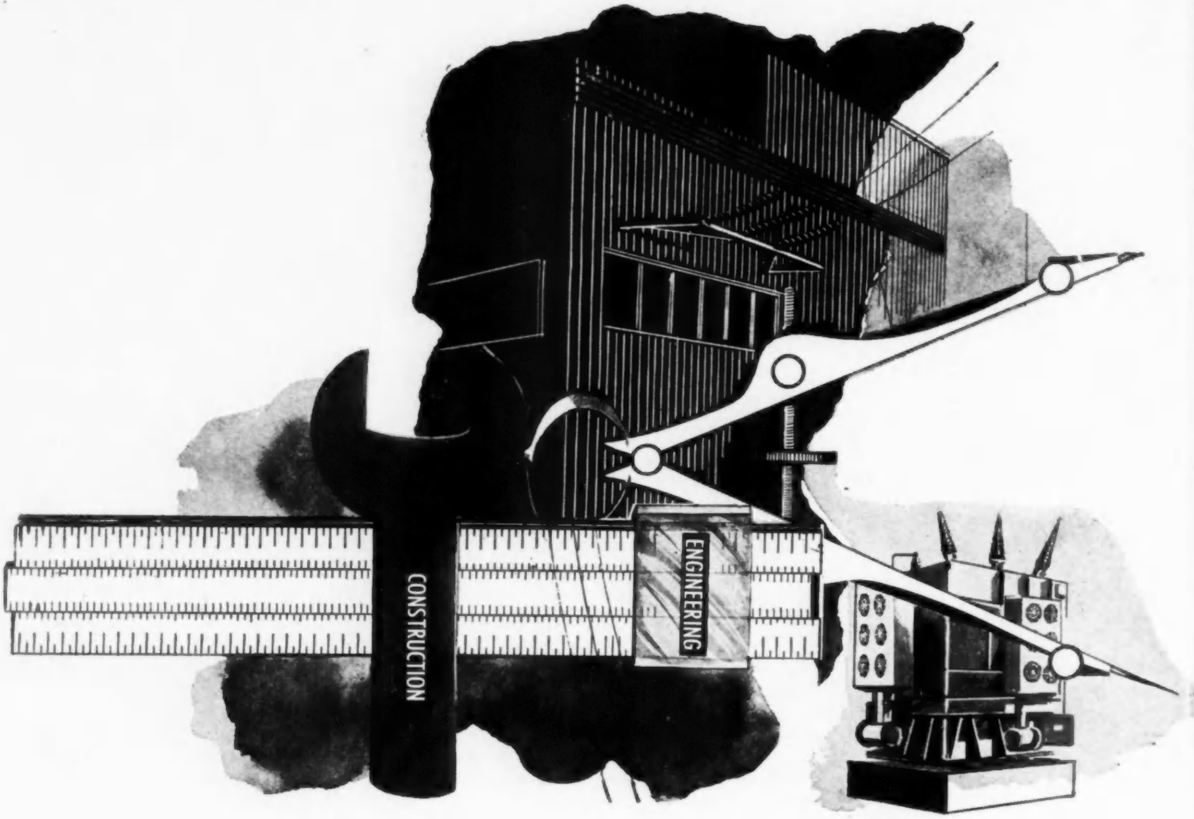
There is the possibility that the nickel price might be raised again in 1957 but the chances are against it, for while nickel still commands a premium over the 74 cent price from dealers, the heat is off. (For a fuller discussion of the nickel outlook see The Magazine of Wall Street, March 3, 1957.)

In February of this year all of the outstanding preferred stock of the company was called for redemption requiring a cash outlay of $34.7 million. This action, financed entirely from the cash resources of the company, reduces the capitalization to 14,584,000 shares of common stock only. Dividends of 7% on the preferred stock now retired called for $1,934,000 annually, equivalent to 13½ cents on the common stock now outstanding.

Inco's Ore Reserves

No other factor counts so much with a mining company as its ore reserves. Inco's reserves, currently the highest in its history, are sufficient for a 17 year life at present reduction rates, exclusive of the new ore developed at Mystery Lake. It has succeeded in replacing annually, ore mined by new ore developed, and consequently, reserves show no depletion. With an estimated production of some 286 million pounds of nickel and 271 million pounds of copper annually, it is evident that a variation of 1 cent a pound in the nickel price affects gross income about 19½ cents a share, and the same change in the copper price about 18½ cents. After taxes these amounts could be reduced about one-third.

In spite of the drastic decline in the value of its copper production, which incidentally the company is unable to curtail because it is by-product with its nickel ore, the total gross value of its two main products is unlikely (*Please turn to page* 566)



CONCRETE RESULTS OF AUTOMATION BEYOND LABOR—SAVING

By WARD GATES

For a full decade, ever since automation became newsworthy, investors have been looking ahead to the promised day of greater industrial efficiency under reduced labor costs. But unfortunately repeated emphasis on labor saving and the implied threat of labor displacement has obscured many benefits already accrued to labor in the form of new skills required and new jobs made.

There is no gainsaying the fact that frequently labor has been displaced by automatic machinery—as it has been by every major technological advance in history—but characterizing "labor-savings" and "automation" as synonymous terms is an over-simplification that concentrates attention on one of the less important properties of the new technology. A few preliminary examples are in order to clarify the point:

The petroleum refining, synthetic textile and many other "continuous-flow" industries are frequently cited as highly advanced forms of automation, but too few realize that in many instances there is little actual labor-savings involved in the operations. For these are not simple cases of machines doing a better and more efficient job than human labor can do, but instances of machines doing work that could not be done at all if man alone had to contend with the complex variables involved. One man sitting at a control panel directing the operations of a huge, automatically controlled installation, is usually doing a completely new job—not one that has replaced numerous laborers.

This difference is essential, because it cuts through the heart of most of the "displaced labor" arguments, and paves the way for clearer thinking on the subject. Just last week Clinchfield Coal announced the development of a push-button mining operation allowing the company to bring back into production a mine that had been shut down for years because it could not be worked economically. Two operators control the complex system, designed and built for Clinchfield by the Link-Belt Company, but a whole new labor force has been put to work processing the mined coal and maintaining the machinery and equipment.

But perhaps the most telling evidence is supplied by the atomic energy and guided missile fields. The entire technologies developed for these industries can be termed "push-button" mechanization *par excellence*, yet no serious criticism of either one has ever pointed the finger of labor displacement their way, for it is self evident that there would be no nuclear or guided missile industries without automation. Many of the materials used are literally "too hot" for human beings to handle—human senses are too crude for the refined measurements required—and human intellect is too slow to cope effectively with the complex mathematical problems the computing machine solves in routine fashion.

What is true in these fields is equally true elsewhere. When properly applied, automation provides the means for doing things never before possible. It opens up a new dimension for planned production in existing industries—and perhaps most importantly, it gives management a new tool for evaluating and dealing with problems, easing the decision-making function.

These are the essential elements of automation. If labor is saved in the process, so much the better, but frequently automatic machinery saves very little in measurable costs and can, through improper use, be even more costly than hand labor.

Automation At Work

In analyzing corporate reports this year, it is interesting to note that profit margins are being maintained in many companies where sales volume is not doing as well as in previous years. In the published reports, the maintenance of profits in the face of declining volume is attributed to "operating efficiencies" instituted in the past few years. Although it is not spelled out as such, the efficiencies are usually largely achieved by automatic processes and certain unplanned for corollary benefits.

In the steel industry, increasing use is being made of programmed machines which can turn out a variety of steel products by merely inserting a new punch-card, or magnetic tape into the machine in order to vary the products. The tape or card represents a new kind of mathematical language that, in effect, instructs the machine to perform in a given manner. Once programmed, production, quantity and quality are automatically controlled.

Allegheny-Ludlum Steel has placed a card-programmed rolling mill in operation, designed by GE, that is a masterpiece of manufacturing efficiency. It is not completely automatic since some stages of the rolling process require special care. But, a newer system being developed for Jones & Laughlin by Westinghouse is expected to overcome this difficulty. Significantly, it is not the labor-savings in this process (although they exist) that is most intriguing, but the reduced errors and the greater speed of production that have been effected through the elimination of bottlenecks. Most other major steel companies are well into similar programs, a factor offering insight into the ability of the industry to maintain profit levels this year, despite sharply reduced percentage of capacity operations.

In the rail industry, automatic processes have been at work for a number of years, and so valued is the new technology that one top executive recently maintained that if the industry could spend $1.5 billion in the next ten years on further automation it might well be able to overcome many of its competitive disadvantages.

The Pennsylvania Railroad's recently completed Conway Yard, constructed at an expense of $34 million has been so successful, that the company expects to realize $11 million in cost savings per year. So optimistic has the road become over the benefits of further automation, that it hopes to reduce some of its four-track stretches to three tracks, relying on automatically controlled devices to work out traffic problems.

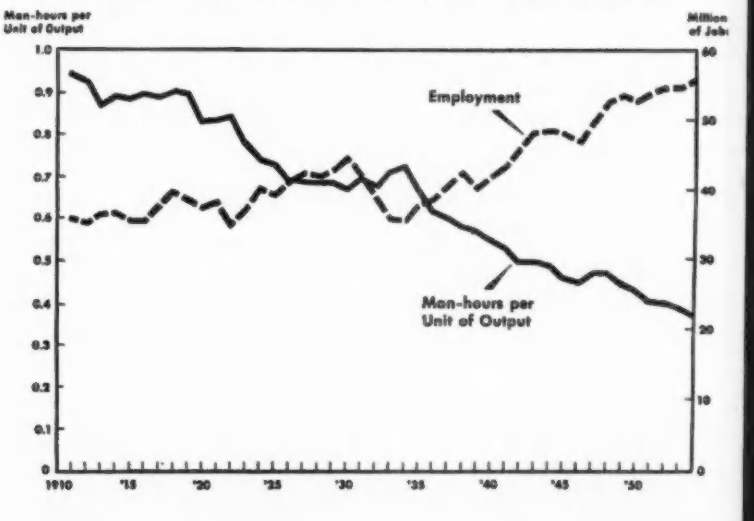
The list of automatic devices used by the railroads is almost endless and is growing every day. If in many instances concrete earnings gains are not visible, at least automation is helping the roads to keep their heads above water, while other basic economic forces hold earnings growth in check.

Getting closer to the consumer, the tobacco industry has intensified automation. The uniformity of product lends itself well to automatic technology, and the industry has taken full advantage of the fact. The fully automatic factory is still a thing of the future, but not long ago Industrial Nucleonics Corp. designed a fully automatic installation for an undisclosed tobacco firm, that may place the future near at hand.

Liggett & Myers, Philip Morris, R. J. Reynolds, and American Tobacco, the majors of the industry all use automatic machinery for cigarette production and various electronic devices for quality and quantity control and for packaging also. American Machine and Foundry, one of the principal suppliers of machinery to the industry has designed a machine that will reject faulty cigarettes at the rate of 1,200 per minute—an impressive figure for an industry that must rely on uniform quality in its products.

These cost-reducing and rapid production methods have played an important role in helping the industry over the rough "cancer-scare" days, and were of

JOBS INCREASE WITH LABOR-SAVING IMPROVEMENTS



inestimable value in allowing the rapid transformation to the popular filter tip brands.

Computer Automation

Production line automation, as most of the foregoing must be characterized, is certainly the most widespread, touching every industry to some degree. Certainly everyone is already familiar with the mammoth "transfermatic" automatic production machines, pioneered by Ford at its Cleveland plant, and now in general use throughout the automotive industry. But it is in the field of data processing, through the use of computing machines, that the most important developments are occurring today.

Management is just beginning to learn to live with these so-called "thinking" machines, and already some of the results are astounding.

Recent reports indicate excellent profitability this year for the nation's banking institutions, and the popular press has been quick to seize on high interest rates as the source of windfall profits, paying scant attention to the solid savings made in cost control through the automating of bank operations. Push-button banking has been a popular phrase, but it has been treated as a gimmick, without much insight into what has actually been accomplished.

The Bank of America, one of the first to turn to data-processing machines, has put its electronic "brain", "Erma", to use on the daily bookkeeping for over 50,000 checking accounts – and the First National City Bank is currently cooperating on the development of a machine that when completed will take over the entire check handling function.

Similarly, at the Chemical Corn Exchange Bank, a major dividend disbursing agent for many corporations, the task of matching stockholders with dividend payments has been turned over to computing machines that solve the problem and make out the check in a fraction of the time it takes human labor to get it done. With almost two million dividend checks to mail out a year the $90,000 to $100,000 cost of the machine should be quickly recouped.

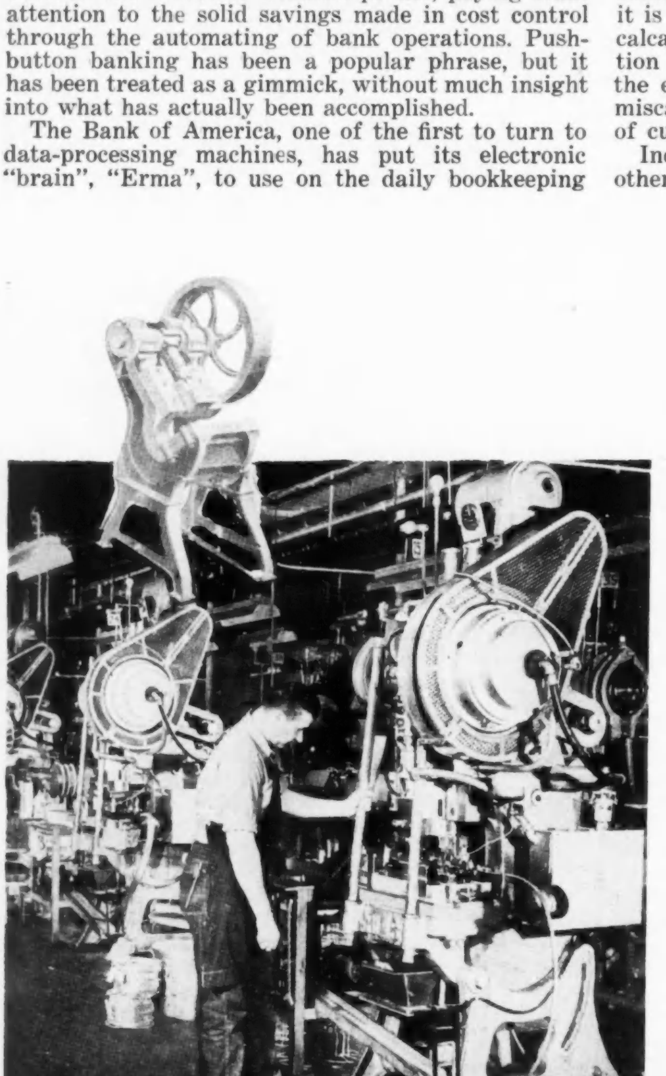
In the utility industry, computers have also been put to effective use. Recently Niagara Mohawk Power unveiled one of the most interesting of the new systems. The problems of feeding electric current from the company's power pool to specific demand areas is now calculated and directed by an elaborate "robot" system developed by Minneapolis-Honeywell. All utilities are confronted with the same essential problem of directing current to where it is needed at a particular time, but until now the calcaulations have been crude, and the actual redirection manually handled. The new system takes over the entire function, eliminating costly delays, and miscalculations to insure users a continuing supply of current.

Indeed, automation is moving rapidly into many other fields.

Decision Making

Electronic calculators are not "thinking" machines in the human sense. But when used as an aid to decision-making the computer is invaluable, although it has not yet been fully appreciated by company managements. Too often, executives view the machines as awesome technical monsters that can only be dealt with by scientists and engineers. As a result, expensive machines are put to purely technical uses when other valuable information could be forthcoming.

At General Electric, pioneer in both the development and use of automation, computers are used to test the probable performance of jet-engine and turbine parts, among other things—and by reducing the trial and error process to a mathematical function, the company has been able to produce advanced designs years earlier than would have been possible with physical testing. Among the non-productive tasks, the company makes extensive use of computers for payrolls, inventory control, market condition analysis and financial analysis. GE's executives now have internal profit and loss statements within the first week after the end of each month. The value of such timing in easing managerial decisions and planning is as obvious as it is incalculable. It is significant that GE is one of the few industrial giants reporting widening profit margins at the present time.



Automation and Capital-Savings

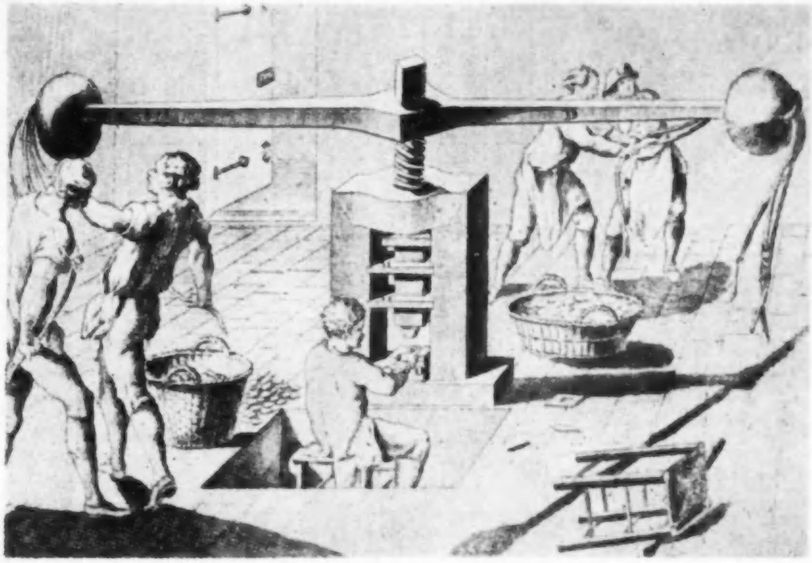
Obviously any technology that increases productivity and reduces unit costs leads to capital savings. However, since capital outlays are invariably stated in terms of number

of dollars invested instead of number of units produced per dollar of investment, the resultant capital savings usually goes unmeasured. Nevertheless, a brief look at some production figures leads to easily drawn conclusions.

At the Curtis Publishing Company's Sharon, Pa., plant, a new automatic press increased production 25 to 50 times above the level prevailing in most of the industry. 48,000 double-width 36 inch sheets speed through the machine per hour, compared with the normal 800 to 1,000 sheets an hour common in the industry. The capital savings are readily apparent.

At Goodrich Rubber, a new plant the size of a football field, yet controlled by one man, has stepped up tire fabric production 20%.

Similarly, production has been increased substantially at International Paper's new Mobile, Alabama, mill. A fully automatic control system saves time, reduces errors and turns out paper of more uniform quality.



MONEYMAKER . . . Crude presses, such as this one shown in a 16th century French mint, are considered to be the ancestor of the modern press.

The Scope of Automation

Although examples of automation can be presented *ad infinitum*, it is more fruitful to place its various forms in perspective.

All of the foregoing fall within the three general classifications. First, is the "transfermatic" type consisting of machines capable of doing as one operational process, work that had previously been done in disjointed fashion by many machines and operators. Not surprisingly, these processes have been dubbed "Detroit" automation.

The second type, used in petroleum refining, missile control systems and a host of other industries is the "closed-loop" or "feed-back" automation, that senses changes in quantity and quality during the production operations—calculates the corrections required—and then feeds the correcting information back into the process.

The last general form, is computer automation—or data-processing—in which machines are used to record and store information, process it into usable form, calculate results or possibilities, and interpret new findings.

Within these three basic types are numerous subheadings and secondary operations that are frequently new industries in themselves. Thus the servo-mechanisms used as the muscular controls of automatic machines, the electronic devices, and the instruments that serve as the eyes and ears of the systems, have all become major parts of the industrial economy.

But although each of these is automation, it is the eventual combination of all three that fills the dreams of automation engineers. Some visualize a fully automatic industrial organization that will utilize automatic machines running at rates determined by computers constantly at work receiving and interpreting market reports—and adjusting the production process to automatically meet changing market conditions. This may be "pie-in-the-sky" thinking, but there is little doubt that all three will be brought into more coordinated use.

Limitations of Automation

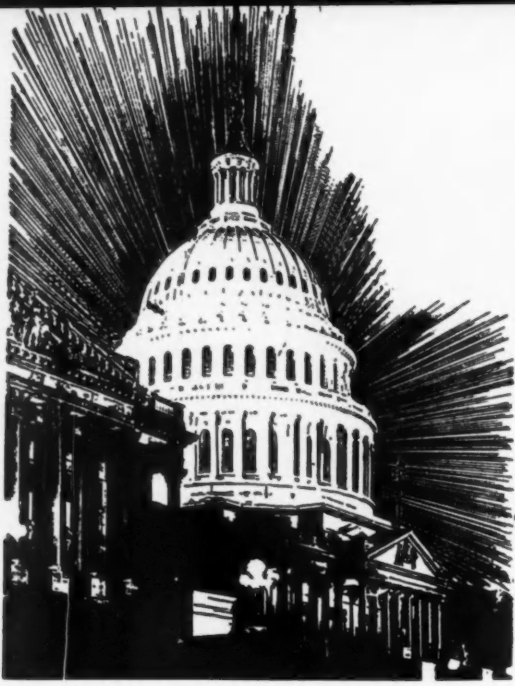
However, there are many obstacles to be overcome before the millenium arrives. Not the least is the attitude of management itself and its uncertainty of how to deal with the new technology. All too often companies purchase expensive computers or other elaborate equipment without a clear-cut understanding of their full potential and varied uses. There is too much blind faith in expecting the same miracles that salesmen report for other users. Frequently, too, the fault lies in over-reliance on the engineers who run the machines, which results in an abdication of the managerial function by the very people who should be re-designing product flow and plant layouts to pave the way for the best use of automation.

Another stumbling block is the shortage of skilled manpower to operate and service the machines. For although the use of the devices should remain a managerial function, actual performance requires skilled technicians and engineers, and these are currently in sadly short supply.

Finally, automation is expensive – for although capital savings invariably result, the initial outlays are too high for many firms to incur.

But with all its pitfalls and uncertainties, there is little doubt that automation is here to stay. It is assured by the hard fact that out working force is becoming more and more insufficient to meet the productivity required by a growing and changing population.

GE's president Ralph Cordiner has predicted that by 1965 the United States will need 40% more goods and services than it did (*Please turn to page* 563)



Inside Washington

By "VERITAS"

POLITICAL dynamite underscores Armed Services Committee investigation into the aircraft engine industry, launched July 15 by Rep. F. Edward Hebert of Louisiana. It will be one o fthe most thorough probes of recent years. There will be nothing haphazard or left to chance. Hebert had laid his plans well; before calling the hearings he had compiled almost all of the pertinent information via questionnaires. What remains is to apply the already-acquired knowledge where, in his opinion, it will serve best. Hebert, a democrat, shares the views held by most of his party-men that "big business" is the darling of the Eisenhower Administration.

SCHEDULED for examination are 15 airplane engine companies. None is "small business" because the item doesn't lend itself to manufacture except in huge plants. Wright Aeronautical, Pratt & Whitney, Westinghouse, and General Electric will lead the parade. What the basis of selection was does not suggest itself on the record; it appears any other four might just as well have been picked. This hints that procurement basically, possibly research and design overall, rather than an attack on marked-out companies is ahead.

BUSINESS in the engine industry obviously will suffer no letdown while the probe goes on. The airframe industry was under Hebert's spotlight in 1955-1956 and nothing spectacular happened. Air Force bought 5,000 engines during calendar 1956 and has scheduled only slightly fewer for delivery in the current calendar year. The Navy may reach a new high of 1000 jet engines this year. The Louisianan is regarded a "strong defense" man and his inquiries don't look to cutback. But his frequent mention of "profits" suggests more attention to bookkeeping than mechanics.

APPRAISALS of progress being made in a field in which little knowledge can be disseminated without fracturing national security, as is the case with nuclear production, is most difficult. However, it seems significant that in a single week (ended July 1) AEC released for general use 47 patents, made a deal with Sweden for 26 tons of heavy water, granted more than $2 million for private research, and firmed contracts with four foreign nations to advance atomic studies. —END

WASHINGTON SEES:

The impact of the smaller European-made automobile on the American motoring consciousness has been more a matter of emotions than of business importance. In comparison with domestically produced cars, the imported autos in the United States represent less than 2 per cent of the whole market. Yet it is not without significance that in the first six months of last year, 63 per cent more foreign cars were sold in that market than in 1955, while there was a fall of about 27 per cent in the sales of domestically produced cars.

At a time when United States automobile companies are announcing plans to go into, or expand, their production overseas, featuring the economical-to-run, easy-to-park small car it is interesting to note that the automotive business is no longer devoted to production for use within the country of manufacture. International trade in passenger cars alone in the first six months of 1956 was 8 per cent larger than in the corresponding period cf 1955. This was entirely the result of higher exports from Continental European countries, since a small increase in North America was more than offset by a drop in United Kingdom exports. For the year 1956 as a whole the German Federal Republic became the largest exporter, in terms of units. Exports also were larger for France and Italy but considerably smaller for the United Kingdom and the United States.

As We Go To Press

▶ Disclosure that the Defense Department doesn't ask for bids in connection with 92 per cent of its procurement has supplied ammunition for Pentagon critics and for small business. Negotiated contracts have much to commend the practice; in fact there is no point in asking bids when no competition could result -- cases where the entire output of an industry is purchased anyway, or where only one company builds to required specifications. But the figure 92 per cent raised eyebrows and there is grave question whether legality of the practice can be established all down the line. That question will be answered on the basis of formal inquiry.

▶ Worst offenders, if an offense is involved, are the Navy and the Air Force. Wholesale use of negotiated buying was a by-product of the Korean War. President Truman gave the Pentagon free rein in that particular. After the Armistice, the Defense Department was told by Congress to return to competitive bids wherever possible. The promise to do so is on the record. How well that promise has been kept seems reflected in the report of a House Armed Services investigating subcommittee, author of the 92 per cent negotiated purchase figures. The Army seems absolved from fault; it negotiates only 9.4 per cent of its buys without bids.

▶ The Navy appears to believe the practice justified, even when the deal is completed on the telephone. Bids, said Navy spokesmen, often convert jobs into auctions which prompted Rep. Edward F. Herbert to observe -- "not a bad way to get a lower price." The Pentagon procurement officers are under notice to begin taking bids. Otherwise, says the committee warning, it will be impossible to answer the charge of favoritism in contract awards and it will cost the taxpayers money because only in goldfish bowl openness can the rightness of prices and the wisdom of specifications be determined.

▶ Refusal of the House of Representatives to vote $14 million to the Federal Flood Insurance Administration means that the program goes over for one year. The parent office, Housing and Home Finance Agency has funds at hand which could be used for FFIA in its formative state, but it has been thought unwise to appear to buck the expressed will of Congress. Planned was a sharing of the risk between Government and private companies. The method had approval on Capitol Hill but the lawmakers, dealing with a program not yet in operation, felt it could be sacrificed without much public outcry. And to do so would please the economizers who point out the budget can be kept within reasonable bounds if only new projects are withheld.

▶ The International Finance Corporation, a new venture in international banking has made its first loan and the results of this, and business that will come later, will be followed with interest by no fewer than 49 nations. That number have an investment in the IFC as owners. The first loan is $2 million, toward a $15 million expansion program for a West German-owned electrical equipment plant in Brazil. This will spur Brazil's power development and aid industrial growth. At least a score of other applications are pending. Business may become brisk!

▶ IFC is an interesting development of profound implications. Its main business is expected to consist of loans to domestic firms in underprivileged countries, or to subsidiaries of foreign firms in which there is some native equity. The goal will be to stimulate more private investment in factories and other enterprises in countries that are short of capital and need help to get into step with the more developed countries. It is foreign economic aid on the international level. IFC grew out of the experience of the World Bank whose loans go to

nations for public works-type operations. Private capital is not available for public works, obviously. But the two agencies can move side by side, complementing each other.

▶ Substitution of private and internationally-pooled capital for economic aid from the United States will be speeded if IFC duplicates the success of the World Bank. Offered is almost unlimited opportunity for long term investment in the industrialization of vast areas of Africa, South America and Asia, slowed in past years by the trickle of colonial investments. Absence of political or strategic strings serving the narrow interests of a single nation, is considered one of the main sources of IFC strength. Local suspicions are being liquidated. Already there is talk of another IFC-type agency to invest in equities and engage in management of industries, organizing them, getting them in motion -- then stepping out of the picture.

▶ Governors have gone back to their State Houses convinced that there must be a recasting of Federal-State functions especially with respect to collecting taxes and spending money. There seemed to be enthusiasm for new divisions when President Eisenhower addressed the annual conference. But it only duplicated the sentiments of last year's conference, the one before that, and others back through a dozen years. All of which means there is no reason to expect more will come of the program this year than eventuated in past years.

▶ The problem is present, and growing. In the past decade, the 48 states have been spending about $26 billion annually for government activity. That means the cost has trebled in 10 years; in the same period, Federal costs didn't quite double. But far from extending the control of the states over their own business affairs it is demonstrable that the outlay was accompanied by increased centralizing in Washington. If pending legislation for federal aid to schools, area rehabilitation, traffic safety and disaster relief are added to the huge highway program the trend toward big central government will be enlarged. Right now it appears both the White House and the State House are bent on just that.

▶ Winston Churchill's reminder that you cannot debate arithmetic seems applicable to the steel price situation. Last summer, the United Steel Workers bargained themselves into wage increases and other benefits that raised the labor costs of U.S. Steel by 24 cents an hour. The company boosted its prices an average of $8.50 a ton to cover the added cost. Now there is to be a new price increase of about $6 a ton to cover contracted wage boosts and new benefits to labor which adds 21 cents an hour to the labor cost of steel production. Inflation is obvious and inevitable; everything using steel will be affected.

▶ The Farm Belt is displaying irritability over what the farmers say is unjustified criticism of them for the part they allegedly played in the living cost jump. Ike, they say, has done them wrong. The President, discussing the boost, played up the fact that food prices led the parade with an increase of .7 per cent last month while the overall increase was .3 per cent. The Farmers Union struck back: "Eisenhower echoed the 'line' developed by a newly-organized big business group called the National Citizens Committee to Curb Inflation. Objectives of this organization are to defend high interest rates, to fight farm programs and other general welfare programs, and to oppose wage increases for labor."

▶ The United States is making strides in atomic power development -- in Brazil. That country has been pushed to the threshhold of the atomic age by the arrival from the United States of the highest power research reactor sent out of this country to date. Rated at 5,000 kilowatts of heat output, it will produce 50 times as much power as the reactor exhibited by the United States at the International Conference for the Peaceful Uses of Atomic Energy at Geneva in 1955. It will be used at the University of Sao Paulo for training and research in nuclear engineering reactor physics, for medical research, in biological and chemical studies. It is considered of immense importance to power-short Brazil.

Private Investment Abroad Superior to Foreign Aid—*and Why*

By JOHN H. LIND

As the great annual foreign aid debate is about to come to an end, the realization is gaining ground, both in Washington and elsewhere, that the United States Government is neither willing nor able to provide indefinitely the bulk of the funds needed for the economic development of the Free World's less advanced regions.

In fact, our foreign aid program was never really intended to do this. As a quick glance at the accompanying Chart I reveals, of the $57 billion which we spent on foreign aid between July 1st 1945 and June 30th, 1956 only one eighth consisted of straight economic aid to the so-called underdeveloped countries. Up to 1952, the vast bulk of our aid went to Western Europe to help rebuild the war-torn economies of that area, under the principles of the Marshall Plan. This type of aid was eminently successful because it was limited to a specific purpose which was fully achieved. Consequently, economic aid to Western Europe (and also to Japan) began to taper off significantly after 1952 and, as Chart II shows, were only 10 percent of our total foreign assistance expenditures in fiscal 1956 (in the current fiscal year this share is still lower).

At the same time two new types of foreign aid programs began to loom increasingly large in our foreign expenditures. One was for the purpose of supporting the military programs of our allies in NATO and SEATO and the other was for economic aid to underdeveloped areas.

The military aspect of our aid program is really part of our overall defense policy (although a significant share of it spills over into the economic sector of the recipient nations). It can therefore only be evalued within the framework of our worldwide military commitments, alliances and obligations. It is to be hoped that this program may be sharply reduced once a certain specific level of military preparedness has been achieved by our allies.

The other type of aid program currently on the increase is of a quite different nature. Economic aid to the underdeveloped nations of the world is a bottomless pit into which we could pour astronomic sums for endless periods without ever seeing an end to it. On the contrary, the more money our government allocates to this type of aid the more it commits itself to continue it. Once a recipient nation has become conditioned to rely on such outside assistance, it would become increasingly difficult to deprive it of same.

This does not mean that the economic growth of the underdeveloped countries is of no concern to

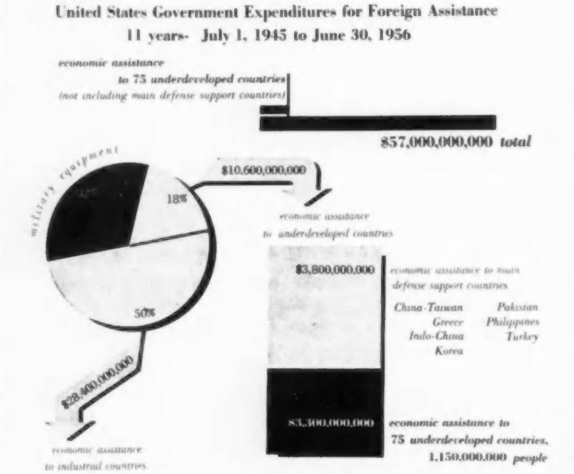
us. Most students of international affairs agree that it is no longer tenable or desirable that two thirds of the Free World's inhabitants should live on an average annual per capita income of $100 while the other third has between ten and twenty times that much. It is also agreed that a basic change in this situation can only be brought about with the active participation of the capital-exporting nations—of which the United States is by far the largest—since local capital formation in the under-developed countries is, as yet, quite insufficient to do the job alone. Furthermore, we know that the more developed a nation's economy is the more opportunities it holds for the exports of other countries and the more it can contribute to world trade in general. If the effective demand of the inhabitants of Free Asia could be raised by only a couple of percent above its present bare subsistence level it would mean a multi-billion dollar additional export market for the industrialized nations of the world.

The big question is who should undertake the job of financing this gigantic development program. Our government can make some contribution to it but it can only be of a *very limited* scale and for very specific purposes such as for roads, schools, disease combating and similar types of basic investments for which no other funds would be available. Even in those cases the money should never be given in the form of grants but rather as fully repayable *loans,* bearing a reasonable interest rate. It is wholesome that more and more members of Congress and U. S. Government officials are now accepting this approach. For the American taxpayer cannot be expected to go on making gifts to other countries for the vague, general purpose of economic development.

CHART I

United States Government Expenditures for Foreign Assistance

11 years- July 1, 1945 to June 30, 1956



COMMITTEE FOR ECONOMIC DEVELOPMENT

The bulk of the job should, therefore, be left to private industry which is both willing and able to undertake it and for reasons quite different and much more acceptable to foreign countries than the actual or impugned reasons behind our government's foreign aid policy.

In the private enterprise system it is axiomatic that companies invest abroad to make a profit, and for no other reason. There is no political ideology to be promoted or defeated where the hard dollar is concerned. For this very reason it has a far higher degree of efficiency in developing foreign resources than government-sponsored aid and a far higher degree of acceptance in the underdeveloped countries.

Theoretically, there should be no competition between these two types of capital outflow. All projects with any sound commercial potential should be left to private enterprise while those that are absolutely necessary but carry no economic incentive should be financed by foreign government loans.

Disadvantages of Government Aid

Actually, however, this is not always so. As we have seen in the case of our own foreign aid, beneficiary nations are often unwilling to relax local laws and regulations which are diminishing the attractions to American investment dollars. The reason is that as long as U. S. government funds are available there is no real incentive to bid for private foreign capital and thereby antagonize some local vested interests.

India is a good case in point. Our economic aid to that country has been fairly substantial. Yet it is continuously narrowing the investment possibilities for private capital while expanding the "socialist" sector of its economy. Were India not able to rely quite so confidently on a continuation of U. S. Government aid and of government-financed World Bank aid there is no doubt that it would slow down its socialization program for fear that it might frighten potential foreign capital away.

A somewhat similar situation exists in Bolivia where the government would probably have already taken much stronger measures to combat the run-away inflation, engendered largely by continued deficit financing and the granting of ever higher wages to the powerful labor unions, had it not been able to count on fairly generous U. S. aid shipments. According to George J. Euler, recent U. S. economic advisor to Bolivia, "in the last three years, the Bolivian tax payer has paid, in taxes and customs duties, less than half as much as the American tax payer has paid to support the Bolivian economy." Yet, ironically, our own well-intentioned contributions probably help to maintain an economic state of affairs in Bolivia which is hardly designed to attract private foreign investment.

Thus, U. S. Government investment abroad, on a grant or on a loan basis, unless carefully tied to specific, useful but non-commercial projects, is not only a burden on our tax payers but may also prevent the proper functioning of genuine economic motives in the field of foreign investment.

That, given a chance, private capital can do an important job abroad has been proven in virtually every report and study on the subject.

The American Enterprise Association, Inc., made a study of it for the U. S. Senate and reported the

following contributions to the less developed country, flowing from American investment:

Capital is supplied directly; our firms make available initiating and organizing ability; skills are transferred and jobs created; our investments induce local capital to undertake many complementary investments; modern marketing is encouraged; low-margin high-volume price philosophy stimulates the local economy; capital markets are broadened; there is some streamlining of government-industry relationships; our firms help to induce a shift of attitudes favorable to enterprise and growth; American investments encourage non-American foreign investments; American firms abroad expand employment opportunities, train skilled workers, offer managerial jobs to local citizens, and help modernize production.

The Benefits of Private Enterprise

Some concrete examples of the benefits of private enterprise to underdeveloped countries is provided by a series of case studies on United States business performance abroad, made by the National Planning Association. One of these concerns is The Firestone Tire and Rubber Company with interests in Liberia where the company has operated large rubber plantations since 1926. According to the study's findings, Firestone has occupied a unique position within Liberia: (1) It is the largest employer, the largest taxpayer and the largest importer and exporter in the country. (2) It is the largest trainer of human skills. (3) It is the pace setter for the whole country in establishing rising consumption patterns and health and educational standards; in stimulating productive efficiency, research and development, and the spirit of enterprise. Finally, (4) it has helped to make possible Liberian President Tubman's open door policy for private foreign capital by proving through its own performance that responsible private enterprise could bring benefits to Liberia.

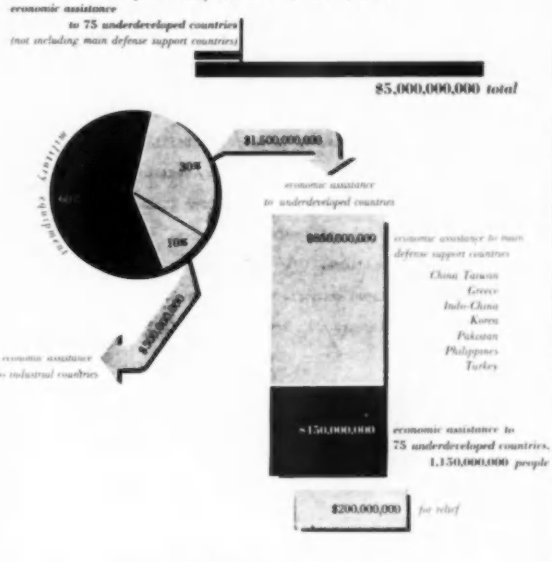
A similar finding was made in the case of the Standard Vacuum Oil Company's Indonesian operations of which the NPA said, "Companies such as STAN-VAC, identifying their long-run profitability with the long-run economic and social development of the countries in which they operate, provide private technical and capital assistance while adapting to the requisite cultural and political envronments." Sears, Roebuck's Mexican business (which at first imported virtually all its merchandise from the U. S. but now buys mostly from thousands of local producers), Creole Petroleum's Venezuelan operations or W. R. Grace's Peruvian business, all have well measured up to the NPA study's criterion that "certain . . . U. S. private enterprises operating in foreign countries have made contributions to the welfare of those countries and that these contributions have resulted from the foresight of management."

The effects of private U. S. investment on the economic development of an entire continent has been described by the U. S. Dept. of Commerce in an extensive pioneer study of our $7 billion direct private investments in Latin America. We devoted a full article to this study in our issue of March 16, 1957. Even more striking are the benefits reaped by the Middle East oil countries from the U. S. and

CHART II

United States Government Expenditures for Foreign Assistance

1 year- July 1, 1955 to June 30, 1956



COMMITTEE FOR ECONOMIC DEVELOPMENT

Western European oil companies operating on their soil. These countries' annual royalties of $1 billion, tremendous though they loom in their total national incomes, are only a part of their overall benefits in terms of new local industries, better health standards, new skills, etc. The economic progress in the Middle East since the end of World War II has been at a considerably faster rate than in any other underdeveloped region of the world. The credit for this goes almost exclusively to the foreign oil companies whose local technical assistance program, though only a by-product of their reasons for being there, has been far bigger than anything the U. S. or the U. N. has been able to do anywhere in the world.

But the benefits accruing to the foreign countries are only one side of the coin. The great postwar expansion of United States enterprise abroad which the Department of Commerce recently termed "one of the most dynamic aspects of postwar international economic relationships" has been motivated, above all, by the profitability of foreign investments, either in terms of new markets or of new supply sources for needed raw materials.

The yield of these investments for the years 1950 and 1951 (the most recent ones for which complete figures are available) are shown in the accompanying Table III, prepared by the U. S. Government. According to this table all but one type of industrial foreign investments yielded higher profits abroad than in the United States. In 1950 the average of all U. S. industrial investments abroad produced a yield of 15 percent of the investment value, compared to 11.2 percent for similar types of domestic investments. In 1951 the average foreign yield was even higher, 17.1 percent, while the comparable domestic yield had shrunk to 9 percent. The only industry for which the domestic yield was higher in both years was the (*Please turn to page* 550)

BANK STOCKS AS INVESTMENTS TO-DAY

By R. W. BURNSIDE

Price inflation has not touched the bank stocks. Despite all the good news, the higher interest rates, the very favorable earnings reports, the dividend increases, etc., the bank issues just seem to be following in the wake of the proverbial ship without a rudder.

There does not seem to be any clearly defined pattern to their meanderings. As one dealer puts it: "if you breathe hard on them, they go down". What he means, of course, is that the so-called market for these issues is so thin today that almost anything will disturb their peace and quiet.

It is this kind of climate in which we find the bank-share market as we enter into the third quarter of this year 1957—a year that very well may be the most profitable the banks have experienced in this century to date. It will certainly be one of the best. Credit is being sought after in ever bigger chunks and at good rates and, from the looks of things, money will continue to be in strong demand.

There is no question that Bank earnings, which were good last year, and better so far this year, will continue to be good for sometime to come.

Therefore, it is hard to reconcile the poor market action of these once-popular issues, which are now available on a yield basis approaching the 5% level, with some returning even a higher rate, and well covered by earnings that warrant continuation of current cash dividends and perhaps further increases!

Indeed, it is seldom that an opportunity to purchase these high-grade issues presents itself so clearly. Price-earnings ratios are extremely favorable at these levels, and we concur with those who believe that stocks bought here will substantially reward the investor over the longer term. Such an opinion is rather hard to find fault with.

Market action for the past nine months and so far this year has been very disappointing to bank shareholders.

The bearish trend got underway about Election Day last November. Until then bank stocks had been doing fairly well. The price index had been moving up since late in May last year and all seemed serene. In the New York City bank market, First National City stock had the bit in its teeth and was ahead in the stretch. By Election Day it had risen by some

dozen or more points to a high price of 72¾, at which price its ten million shares were worth $727,500,000.

Bank Holding Co. Proposal

It was at that juncture that the management of the bank decided to announce their rather ambitious proposal to form a bank holding company under Federal laws and to merge the County Trust Co. of White Plains. That seemed to be the signal to sell the bank stocks. Inside of a month they had fallen by some 6% and City stock was down to 66½. By the close of 1956 it had struggled back up to about 68, rose to 69½ early in January of this year, and then started on the long road down to its recent low of 61 where it was off almost 12 points or about 16% from the high of last November.

This action on the part of such a high-grade issue as First National City was sure to put a crimp in the entire bank-share market and it did just that. Interest lagged and dealers became more and more timid with their bids until the market was almost dormant. At the end of June the price index was off about 8 points or better than 10% and the bank stocks were a thoroughly deflated group of equities.

Income return at the recent lows was about 5% on the average stock—yet there were but few takers. This recent chance to purchase good bank stocks at bargain levels was the fifth such opportunity in recent years: The first came in January of 1955—the next in the so-called "heart attack market" of September and October of that year—again in February 1956—and the following May of the same year—and, most recently, at the lows in June 1957.

Since then the publication of the mid-year reports and earnings figures have acted as a tonic. But although the bank stock price index pushed up about 2 points in the opening days of July trading, it only succeeded in bringing prices back to the levels of last February. This, although the shares of the leading banking institutions are still selling low in relation to earnings and have not yet discounted the excellent prospects for the year ahead.

First National City Bank

This stock continues to remain an outstanding buy. As part of an overall strategy in their long range planning, the City management has offered their shareowners the right to subscribe on or before July 22nd to an additional 2,000,000 shares of stock at $60 per share in the ratio of one for five. The $120,000,000 secured through sale of the new shares will raise the bank's capital funds to approximately $726,000,000, including those of its trust affiliate; the 12,000,000 shares to be then outstanding will possess a Book Value of about $60.50 each. The bank's legal lending limit will be increased from its current $50,000,000 limit to $62,000,000 to any single customer. In addition to the admitted capital funds of $726,000,000 or thereabouts, there already exist in the bank a total of unallocated reserves exceeding $100,000,000 or some $8.33 per share on the increased number of shares. The $3.00 dividend rate is well covered by the expected net earnings of about $5.00 per share.

Bank Holding Company Act

While there is no doubt about the success of the sale of these new shares, considerable mist obscures the outcome of the earlier propoal to form a holding company under the recently enacted Bank Holding Company Act of 1956.

Application was made on November 5, 1956 to the Board of Governors of *(Please turn to page 563)*

Statistical Data on Leading Bank Stocks

	(Millions) Total Deposits June 30, 1957	Total Deposits Dec. 31, 1956	Loans and Discounts June 30, 1957	Loans and Discounts Dec. 31, 1956	U. S. Govt. Securities June 30, 1957	U. S. Govt. Securities Dec. 31, 1956	Book Value per Share June 30/57	Earnings per Share* 1st Half 1957	Earnings per Share* Year 1956	Indicated Current Dividend	Recent Bid Price	Dividend Yield %
American Trust, San Francisco	$1,455	$1,487	$ 851	$ 840	$ 343	$ 372	$ 38.77	$1.62	$ 3.75	$1.60	$ 36	4.45
Crocker-Anglo, S. F.	1,329	1,369	779	761	325	325	25.55[3]	1.09	2.57	1.20	27	4.45
Bank of Amer., S. F.	8,937	8,993	5,352	5,352	1,803	1,770	21.99[3]	1.37	2.89	1.80	36	5.00
Bankers Trust, N. Y.	2,384	2,484	1,573	1,469	381	422	61.50	2.67	5.02	3.00	62	4.85
Chase Manhattan, N. Y.	6,694	6,928	3,863	3,732	1,033	1,073	45.13	2.06	3.78	2.40	48½	4.95
Chemical Corn Exchange, N. Y.	2,729	2,760	1,559	1,483	434	462	44.43	2.23	3.87	2.00	48½	4.10
Cleveland Trust Co.	1,339	1,389	764	734	334	350	238.78	n.a.	24.96	6.00	230	2.60
Continental Illinois, Chicago	2,293	2,497	1,167	1,167	574	731	88.12	n.a.	7.67	4.00	84½	4.70
First National City, N. Y.	6,614	6,672	3,880	3,708	1,028	1,184	60.96[1]	2.88[1]	5.20[1]	3.00[1]	62	4.85
First National of Boston	1,563	1,539	878[4]	938	252[4]	292	61.42[3]	3.32	6.01	3.05	68	4.44
First National of Chicago	2,549	2,649	1,556	1,505	564	572	238.54	n.a.	20.55	8.00	312	2.55
Guaranty Trust, N. Y.	2,457	2,543	1,591	1,573	509	688	68.78	2.50	4.71	3.20	65½	4.90
Hanover Bank, N. Y.	1,625	1,654	934	911	272	316	45.10	2.03	3.78	2.00	43	4.65
Irving Trust, N. Y.	1,497	1,539	830	785	329	398	26.00	1.34	2.56	1.70	32½	5.20
Manufacturers Trust, N. Y.	2,663	2,845	1,190	1,165	649	697	42.05	2.04	3.59	2.00	41	4.90
Mellon National Bank	1,721	1,736	957[2]	930	381[2]	369	106.10[2]	n.a.	7.70	4.00	112	3.60
National Bank of Detroit	1,779	1,854	590	588	610	699	47.77	2.55	4.82	2.00	53½	3.70
New York Trust	682	733	412	406	150	171	67.00	2.82	5.49	3.50	72	4.85
Philadelphia National Bank	879	957	478	463	155	153	32.34	n.a.	2.82	1.80	36½	4.90
Security-First Natl., L. A.	2,401	2,338	920	878	1,050	1,035	37.82	n.a.	3.52	1.60	44½	3.60

*Net operating or indicated earnings.

[1] Including City Bank Farmers Trust Co.

[2] As of June 6, 1957.

[3] Dec. 31, 1956.

[4] As of March 14, 1957.

Mid-Year Appraisal of the

Food Processors

By VERNON SAVAGE

People are "eating higher on the hog" than ever before—to use a homely colloquialism. Expenditures for "three square meals" a day – along with midnight snacks and picnics—are budgeted for 1957 at about $74 billion, compared with an estimated $70 billion for 1956. Consumption on a tonnage basis has not registered such rapid gains, because food prices have increased moderately and distribution costs, which must be taken into account at the retail level, have climbed sharply.

The country's larger food budget may be attributed in large measure to our rising population and to mounting personal income supported by a high level of industrial activity and recurrent wage increases. Consumption in terms of dollars has been stimulated by aggressive development of so-called convenience foods and by development of new products or fresh adaptations of older lines. The modern trend of living for younger couples, which finds both man and wife earning a livelihood, has encouraged development of prepared meals which may be warmed and served with comparatively little effort on the part of the housewife. Modern freezing processes have made possible, the preparation of all kinds of food products in this fashion.

Because of conveniences offered, it is evident that smaller amounts of food command higher retail prices and, therefore, explain larger budgets for meals than might have been the case years earlier when the housewife was called upon to prepare meals from unprocessed raw materials. In households where both spouses are employed the family income is sufficient to support a relatively high food budget. Statistics indicate that about a quarter of disposable national income is devoted to food for the family. On the basis of estimated disposable income this year of about $296 billion, it may be assumed that the country's expenditures on food may rise slightly more than 5 per cent over last year's estimated $70 billion.

Another development of recent years has been the effort on the part of bakers and other processors to put on the market tempting snack treats to appeal to leisure time parties. Increasing popularity of the "coffee-break" interlude in offices and industrial plants also has boosted the market not only for hot drinks but also for cookies, potato chips, sweet crackers and cakes, that lend themselves to

Statistics on Leading Food Processors

	1st Quarter: Net Sales 1956 (Millions)	1st Quarter: Net Sales 1957 (Millions)	1st Quarter: Net Profit Margin 1956 %	1st Quarter: Net Profit Margin 1957 %	1st Quarter: Net Per Share 1956	1st Quarter: Net Per Share 1957	Full Year: Earned Per Share 1955	Full Year: Earned Per Share 1956	Full Year: Dividend Per Share 1956	Full Year: Dividend Per Share Indicated 1957	Price Range 1956-1957	Recent Price	Indicated Div. Yield
AMERICAN BAKERIES W.C. (mil.) '55—$15.8 W.C. (mil.) '56—$15.7	n.a.	n.a.	....	....	$ .85	$ .99	$3.22	$3.52	$2.10	$2.10	37 -30	34	6.1%
BEATRICE FOODS W.C. (mil.) '55—$32.4 W.C. (mil.) '56—$34.1	$ 82.9	$ 87.7	1.4%	1.4%	.56	.57	3.01	3.43	1.64	1.75	37¾-30	33	5.3
B'CH-N'T LIFE SAVERS W.C. (mil.) '55—$30.4 W.C. (mil.) '56—$43.0	n.a.	n.a.	....	....	.52	.55	2.02	2.49	.75	1.50	33 -26½	33	4.5
BEST FOODS W.C. (mil.) '55—$19.1 W.C. (mil.) '56—$21.3	n.a.	n.a.	....	....	3.07[1]	2.78[1]	3.28[2]	4.53[2]	3.00	3.00	53¾-43	46	6.5
BORDEN CO. W.C. (mil.) '55—$119.4 W.C. (mil.) '56—$118.2	203.3	221.7	1.9	2.0	.86	.99	4.61	5.01	2.80	2.80	64 -5[illegible]¾	61	4.5
CALIF. PACKING W.C. (mil.) '55—$105.3 W.C. (mil.) '56—$110.9	n.a.	n.a.	....	....	......	......	5.15	5.67	2.00[7]	2.20[7]	48 -36¾	40	5.5
CAMPBELL SOUP CO. W.C. (mil.) '55—$141.0 W.C. (mil.) '56—$142.0	228.4[3]	228.1[3]	7.1	6.9	1.53[3]	1.47[3]	2.73[4]	2.74[4]	1.50	1.50	43⅝-32½	33	4.5
CONSOL. FOODS W.C. (mil.) '55—$35.0 W.C. (mil.) '56—$45.8	174.4[5]	231.2[5]	1.3	1.1	1.37[5]	1.20[5]	1.53[2]	1.45[2]	1.00	1.00	18½-14⅜	15	6.6
CONTINENTAL BAK. W.C. (mil.) '55—$19.9 W.C. (mil.) '56—$22.9	65.7	73.6	2.0	2.1	.79	.95	4.76	4.59	2.00	2.00	36¾-28½	31	6.4
CORN PROD. REF. W.C. (mil.) '55—$49.8 W.C. (mil.) '56—$51.2	73.1	76.5	6.1	5.1	.48	.54	2.29	2.36	1.50	1.50	32⅜-27½	30	5.0
CREAM OF WHEAT W.C. (mil.) '55—$4.6 W.C. (mil.) '56—$4.8	n.a.	n.a.	....	....	.54	.62	1.88	2.03	1.85	1.85	30⅝-28⅛	29	6.3
FOREMOST DAIRIES W.C. (mil.) '55—$44.0 W.C. (mil.) '56—$47.9	86.7	94.4	3.3	3.3	.30	.43	1.08	1.38	1.00	1.00	21⅛-16	17	5.8
GENERAL BAKING W.C. (mil.) '55—$18.3 W.C. (mil.) '56—$10.8	n.a.	n.a.	....	....	.11	.23	.92	1.12	.60	.60	10⅞- 9	10	6.0
GENERAL FOODS W.C. (mil.) '55—$188.3 W.C. (mil.) '56—$192.3	664.0[6]	703.5[6]	4.3	4.4	2.43[6]	2.68[6]	3.31	3.61	1.77	2.00	50⅝-21¼	44	4.5

W.C.—Working capital.
n.a.—Not available.

1—9 months ended March 31.
2—Years ended June 30.
3—6 months ended January 29.
4—Years ended July 31.
5—36 weeks ended March 10.
6—9 months ended Dec. 31, 1955 and 1956.
7—Plus stock.
8—Plus 1/10 sh. Foremost Fin. & Equip. Co.

American Bakeries: Slower pace in earnings improvement indicated for this year in reflecting higher costs and high prices of raw materials. (C1)

Beatrice Foods: Better growth potential indicated in acquisition of non-dairy lines. Uptrend in personal income points to further sales rise. Good chance of modest dividend increase seen. (A1)

Beech-Nut Life Savers: Enlarged facilities, reinvigorated sales efforts and introduction of new items contributed to uptrend in sales. Operating economies expected to sustain earnings gains. (A1)

Best Foods: Greater stability in raw materials prices, especially vegetable oils and peanuts, should contribute to more satisfactory results. (B1)

Borden Co.: Expansion potentials limited aside from natural gains from population growth. Increasing emphasis on non-dairy activities helps offset uptrend in operating costs. (A1)

California Packing: Benefits of modernization program and expansion of packing facilities showing up in operating economies. Sales enlarged by Canadian merger. Further rise in earnings and dividends seen. (B1)

Campbell Soup: Current margins being restricted to some extent by unusual costs of product development and plant expansion. Non-recurring charges involved in Swanson merger hampering 1957 profits. (A2)

Consolidated Foods: Leading wholesale grocer has expanded operations in canning and preparation of foods. Record sales and earnings estimated for fiscal year just ended. Adequate margin for $1 dividend. (C2)

Continental Baking: Rising distribution costs and restrictive effect on margins, of competition in the frozen foods division contributing to unsatisfactory earnings trend recently. (B1)

Corn Products Refining: Further modest progress in earnings indicated from more aggressive promotion of diversified lines. Promising outlook for sugar demand a favorable factor. (A1)

Cream of Wheat: Stability of earnings and dividends evident, but little indication of growth. Net estimated at about $2 a share for year and dividend of $1.60 may be supplemented with 25c extra. (B1)

Foremost Dairies: Prospect for development of growth areas in South and on Pacific Coast is plus factor for this company. $1 dividend safe. (B1)

General Baking: More vigorous growth anticipated from expansion on West Coast should improve earning power. Modest dividend expected to hold as profits improve. (B1)

General Foods: Increasing demand for packaged foods in supermarkets expected to contribute to moderate sales and earnings gain this year. (A1)

RATINGS: (A)—Best Grade.
(B)—Good Grade.
(C)—Speculative.
(D)—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

Statistics on Leading Food Processors—(Cont'd)

	1st Quarter						Full Year						
	Net Sales (Millions)		Net Profit Margin		Net Per Share		Earned Per Share		Dividend Per Share				
	1956	1957	1956 %	1957 %	1956	1957	1955	1956	1956	Indicated 1957	Price Range 1956-1957	Recent Price	Indicated Div. Yield
GENERAL MILLS W.C. (mil.) '55—$67.9 W.C. (mil.) '56—$73.9	$255.6[1]	$259.5[1]	1.9%	1.9%	$1.98[1]	$1.97[1]	$5.02	$5.68	$3.00	$3.00	71¾-57⅞	59	5.0%
GERBER PRODUCTS CO. W.C. (mil.) '55—$19.9 W.C. (mil.) '56—$24.7	69.9[3]	78.0[3]	5.6	7.3	1.83[3]	2.73[3]	2.84[2]	3.69[2]	1.35	1.80	62½-40½	56	3.2
HEINZ, H. J. W.C. (mil.) '55—$85.8 W.C. (mil.) '56—$86.8	128.7[4]	139.7[4]	4.1	3.9	3.10[4]	3.20[4]	5.02	6.09	1.80	2.20	60 -46¼	49	4.4
LIBBY McNEILL & LIBBY W.C. (mil.) '55—$74.4 W.C. (mil.) '56—$72.9	146.8[5]	148.2[5]	2.3	1.0	.87[5]	.35[5]	1.35	2.05	1.00	1.00	18¼-10	10½	9.5
NATIONAL BISCUIT W.C. (mil.) '55—$48.2 W.C. (mil.) '56—$50.1	100.4	102.0	4.6	4.6	.66	.68	2.59	2.90	2.00	2.00	40 -34⅝	38	5.2
NAT. DAIRY PROD. W.C. (mil.) '55—$169.3 W.C. (mil.) '56—$171.2	327.5	350.0	3.0	2.2	.73	.56	2.98	3.02	1.75	1.80	42⅝-33	33	5.4
PENICK & FORD W.C. (mil.) '55—$12.9 W.C. (mil.) '56—$12.2	n.a.	n.a.	....	....	.66	.70	2.71	2.64	1.50	1.60	28¼-23¼	26	6.1
PET MILK W.C. (mil.) '55—$17.7 W.C. (mil.) '56—$18.1	42.0	48.0	.3	.7	.09	.66	4.50	6.06	2.00	2.00	54 -45¼	49	4.0
PILLSBURY MILLS W.C. (mil.) '55—$44.7 W.C. (mil.) '56—$44.2	165.4[1]	165.6[1]	1.7	1.3	2.84[1]	2.25[1]	5.37	4.42	2.50	2.50	59¼-40⅛	40	6.2
STANDARD BRANDS W. C. (mil.) '55—$86.3 W.C. (mil.) '56—$95.6	117.8	129.3	2.5	2.7	.87	1.05	3.01	3.48	2.25	2.25	44⅛-36¾	40	5.6
STOKELY-VAN CAMP W.C. (mil.) '55—$164.7 W.C. (mil.) '56—$153.8	64.6[1]	75.2[1]	2.4	2.9	.91[1]	1.29[1]	2.29	2.68	1.00[6]	1.00	20⅝-16¾	18	5.5
SUNSHINE BISCUITS W.C. (mil.) '55—$29.0 W.C. (mil.) '56—$29.9	n.a.	n.a.	....	....	1.45	1.52	5.94	6.20	4.00	4.00	78 -66	71	5.6
UNITED BISCUIT W.C. (mil.) '55—$14.0 W.C. (mil.) '56—$16.0	33.3	34.6	2.4	2.3	.75	.73	3.30	3.47	1.40	1.40	32¾-26	27	5.1
WARD BAKING W.C. (mil.) '55—$9.8 W.C. (mil.) '56—$8.1	n.a.	n.a.	....	....	d .02	.02	1.53	1.22	1.00	1.00	17⅞-12⅝	15	6.6

W.C.—Working capital.
n.a.—Not available.
d—Deficit.

1—6 months ended Nov. 30, 1955 and 1956.
2—Year ending March 31, 1956 and 1957.
3—9 months ended Dec. 31, 1955 and 1956.
4—6 months ended Oct. 31, 1955 and 1956.
5—26 weeks ended Dec. 31, 1955 and 1956.
6—Plus stock.

General Mills: Despite gradual per capita decline in flour consumption and keen competition, flour milling remains primary activity. Diversification helps sustain earnings uptrend. (A1)

Gerber Products: Big baby crop will grow bountiful harvest of sales and profits for this largest baby food producer. Earnings have shown a steady rise. Dividends have averaged 40% of earnings in past five years. (B1)

Heinz (H. J.) Co.: Popularity of packaged prepared foods and aggressive merchandising account for steady gains in volume. Earnings likely to improve moderately. (A1)

Libby, McNeill & Libby: Disappointing results in frozen food division account for indicated earnings setback in fiscal year just ended. Little improvement indicated for near term. (C3)

National Biscuit: Further benefits of modernization program around New York anticipated from new activities this year. Research and aggressive promotion should sustain earnings rise. (A1)

National Dairy Products: Rising distribution costs and continued heavy expenditures on plant improvements may retard earnings this year. (A1)

Penick & Ford: Continued progress in sales and earnings seems likely as result of aggressive management. Modest earnings gain estimated for this year. (B1)

Pet Milk: Emphasis on evaporated milk and higher costs for development of new markets may retard earnings growth this year. Dividend expected to hold recent $2 pattern. (B1)

Pillsbury Mills: Emphasis on development of convenience foods expected to improve margins in time. Keen competition in ready-mixed baked products restricting earnings. (A3)

Standard Brands: Increased marketing costs tending to retard margins in face of promising sales gain. Excellent progress in corn refining activities offset by disappointing frozen foods margins. (A1)

Stokely-Van Camp: Better control over costs and move toward production of own can requirements helped upturn in earnings for year just ended. (C1)

Sunshine Biscuits: Basis for further growth laid by acquisition of units in potato chip and snack food lines which management plans to enlarge. Improved margins indicated from upsurge in sales volume. (A1)

United Biscuit: Continued recovery from depressed showing caused by modernization program anticipated this year in spite of higher wage costs and abnormal plant rearrangement expenditures. (B1)

Ward Baking: Despite prospect of modest earnings improvement this year, company's record has been unimpressive. Has lost ground in keen competition. Relatively thin coverage for $1 dividend. (D3)

RATINGS:
(A)—High-grade investment quality.
(B)—Good Grade.
(C)—Speculative.
(D)—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

packaging in cellophane or plastics for in-plant distribution.

Biscuit Companies Add New Treats

Along this line, **National Biscuit** and **Sunshine Biscuits** have adopted aggressive expansion programs. The former has researched and produced a wide variety of cracker snacks as well as pretzels, many of which are designed especially for "dips" at afternoon bridge parties and teas, where servings include cheese spreads on crackers. National's management is confident that vigorous promotion of newly developed snack products will contribute importantly to sales this summer. Progress in this direction has been accelerated by construction of a large research center in northern New Jersey in conjunction with a modern baking plant designed to serve the New York metropolitan area. Benefits from these improvements are counted on to bolster 1957 earnings.

Sunshine acquired through exchange of stock three firms that had grown rapidly in making and distributing packaged potato chips and snacks. Management embarked upon a plan for substantial enlargement of facilities. Promotion of these items is expected to result in significant sales gains. Earnings likewise should improve in due course. With labor leaders pressing for shorter work weeks, it may be assumed that Americans will have more—not less—leisure to be devoted to sports, do-it-yourself work at home and other activities that ordinarily encourage consumption of snack foods.

Canners Expand Into Frozen Foods

The major canners have noted potentialities in convenience foods and have embarked upon programs involving preparation of foods in containers other than tin cans. **Libby, McNeill & Libby,** for example, has moved into frozen foods on a broad front. Products include not only vegetables offered in the familiar paperboard cartons but also frozen orange concentrate. This venture has involved problems in buying raw materials as well as in marketing, and results have not always been as satisfactory as could have been desired.

Campbell Soup also has sought diversification in other than traditional products. This company's principal effort along this line was the acquisition of Swanson Company, nationally known manufacturer of meat pies, prepared dinners and fruit pies. Through this consolidation, Campbell obtained a leading position in distribution of frozen prepared meals. Large sums have been earmarked for construction of additional facilities for development of this new project and for enlargement of marketing areas. Necessity for closing some Swanson branches and adjusting operations otherwise seems likely to retard earnings improvement for a time.

Stokely-Van Camp acted to broaden its line of frozen food products through acquisition of Fairmont Canning Company of Minnesota, which was engaged in processing frozen foods. Thus Stokely has been able to enlarge its line of products to include meat and fruit pies which previously had been purchased from other producers for distribution by Stokely. Enlargement of this activity is contemplated.

Bakers Diversify

Major bread bakers have endeavored to extend their markets through other than conventional means. **Continental Baking,** for example, branched out into new lines through acquisition of Morton Frozen Foods. Vigorous promotional efforts are contemplated for the Morton frozen pie division. Results thus far have been handicapped by keenly competitive struggle for the available business as well as by the usual problems of integration of a new type of activity.

General Baking took steps to gain greater growth momentum by the acquisition about a year ago of Van de Kamp's Holland Dutch Bakeries on the Pacific Coast. This unit, established in a marketing area growing more than twice as fast as the rest of the country, is contributing a significant portion of General Baking's total volume. Lower costs and fewer labor problems are anticipated in the West Coast operations. Hence, in proportion to capital invested this division is expected to account for a larger share of earnings than the older section of the company. Much of General's indicated earnings improvement for 1957 can be attributed to this move.

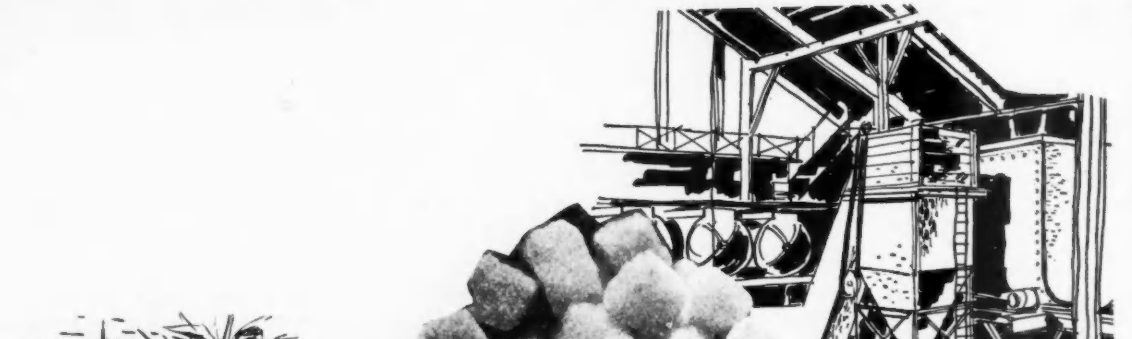
Outlook for the Dairy Companies

The dairy industry is the largest and most stable of the groups under survey in this article. From the viewpoint of public interest it probably is the most essential, inasmuch as government regulations have been adopted to supervise the production and distribution of milk and by-products. Provisions have been made for operation of price controls in some marketing areas. Milk consumption has been gaining slightly over the normal rate of population growth in recent years, partly as a result of encouragement from government authorities. In some metropolitan areas, for example, milk is made available for school children either free or at nominal cost. This program is financed in part with tax funds through the Commodity Credit Corporation which purchases surplus dairy supplies.

Although representatives of the dairy industry may be hampered to some extent by governmental regulations, they enjoy an advantage in participating in a growing industry. Even though per capita consumption of fluid milk may decline slightly, increasing population and a steadily mounting demand for cheese and ice cream should benefit diversified processors. Sales trends of major factors in the industry testify to growth potentials.

National Dairy Products is the largest of its group and the most diversified in markets as well as in products. Sales have expanded with acquisition of additional companies and with development of broader markets. Threat of firm resistance by the Federal Trade Commission to expansion by mergers suggests that slower progress is likely for a time. Emphasis may be expected on promotion of new products in the Kraft cheese division. The latter ranks second to fluid milk and cream in sales with a little less than 25 per cent, compared with about 30 per cent for milk. Ice cream accounts for about 15 per cent and butter for 8 per cent. Other products, including margarine, contribute less than 25 per cent.

Rising raw material *(Please turn to page 552)*



SUGAR INDUSTRY
Spurred By World Demand

By J. C. CLIFFORD

How times have changed! Just five years ago Cuban sugar production hit an all-time high of 7.6 million tons and so glutted the world sugar market that its impact dominated the industry for the next four years. The Cuban Government instituted cutbacks that reduced output to a little over 5 million tons by 1955, lest the price structure collapse and cause inestimable harm to the island's cane growers. But in the past year it has become apparent that despite production increases in other parts of the world, consumption has increased so greatly that the typical underconsumption-over production pattern of the industry is, for the time being a thing of the past.

Since late 1956, the price of sugar in the world market has doubled and so active has sugar become in commodity futures markets that on some days this year volume exceeded the total of all transactions for most of the months in 1956. The trigger for the sharp rise in volume and soaring prices was the fear of a general war during the Suez Crisis, but the high levels that have obtained since the easing of tension in that area are proof-positive that more basic economic forces are at work.

Actually, since the debacle of 1952, world consumption has been catching up to world production at a rate that was at first unobservable, but which has been gathering speed as time goes on. Thus, at a time when the industry was cutting back production to preserve the price level, surpluses were diminishing, and by the end of 1956 had virtually vanished. At the end of 1953 Cuba had on hand surplus stock of almost 3 million tons but by the end of 1956 it had been cut down to 80,000 tons and the increased demand had become so noticeable that the International Sugar Council raised the export quotas of member nations by over a half million tons to 5.5 million tons for the year 1957. And still it appears that this will not be enough to meet the increased consumption from the world's rapidly growing population.

Demand and Supply of Sugar

The factors contributing to the sudden rise in the price of sugar are, of course, the Suez incident and the rapidly growing world population, but it is the bettered living standards throughout the world, symptomatic of the almost universal post-war prosperity, that has had the most telling effect. Interestingly enough, Japanese consumption has increased by leaps and bounds and the middle east has become a more important consumer. Britain, always a large buyer, has (*Please turn to page* 552)

Statistical Summary of Sugar Companies

CUBAN-DOMINICAN PRODUCERS	Net Sales Fiscal 1955	Net Sales Fiscal 1956	Net Profit Margin Fiscal 1955	Net Profit Margin Fiscal 1956	Earned Per Share Fiscal 1955	Earned Per Share Fiscal 1956	Dividend Per Share 1956	Dividend Per Share Indicated 1957	Price Range 1956-1957	Recent Price	Div. Yield
CUBAN AMER. SUGAR W.C. (mil.) '55—$14.5 W.C. (mil.) '56—$14.7	$ 41.0[1]	$ 51.6[1]	2.4%	5.2%	$1.18[1]	$3.30[1]	$1.25	$1.80	30⅝-14⅞	29	6.2%
CUBAN ATLANTIC SUGAR W.C. (mil.) '55—$26.2 W.C. (mil.) '56—$25.9	67.2[1]	71.3[1]	4.6	4.6	1.54[1]	1.64[1]	1.00	.25[7]	23⅜-13⅛	8	....
FRANCISCO SUGAR W.C. (mil.) '55—$1.3 W.C. (mil.) '56—$1.4	10.9[2]	10.3[2]	3.2	3.5	.99[2]	1.06[2]	.25	.25	17¼- 8½	15	1.6
MANATI SUGAR W.C. (mil.) '55—$2.9 W.C. (mil.) '56—$3.0	9.5[3]	10.4[3]	1.2	2.6	.25[3]	.62[3]	....	....	10 - 4¾	9	....
VERTIENTES CAMAGUEY W.C. (mil.) '55—$7.6 W.C. (mil.) '56—$8.3	17.0[1]	17.3[1]	6.0	7.1	.71[1]	.86[1]	.86	....	14½- 7	13	....
WEST INDIES SUGAR W.C. (mil.) '55—$29.0 W.C. (mil.) '56—$28.9	29.3[1]	29.7[1]	4.9	3.9	1.41[1]	1.15[1]	1.00	1.00	65¼-20⅝	67	1.4
PUERTO RICAN PRODUCERS											
CENTRAL AGUIRRE SUGAR W.C. (mil.) '55—$7.5 W.C. (mil.) '56—$8.0	13.6[4]	14.4[4]	6.6	9.4	1.21[4]	1.52[4]	1.40	1.40	23 -17	20	7.0
FAJARDO SUGAR W.C. (mil.) '55—$4.0 W.C. (mil.) '56—$4.2	13.8[4]	13.1[4]	1.5	1.8	.58[4]	.68[4]	.80	.60	16 -10⅞	12	5.0
SOUTH P. R. SUGAR W.C. (mil.) '55—$11.3 W.C. (mil.) '56—$10.0	29.0[1]	34.5[1]	8.3	9.0	2.19[1]	2.93[1]	1.90	2.10	39⅜-24¾	35	6.0
BEET SUGAR REFINERS											
AMERICAN CRYSTAL SUGAR W.C. (mil.) '55—$18.2 W.C. (mil.) '56—$18.7	46.3[5]	49.8[5]	3.2	3.5	3.45[5]	4.06[5]	1.20	1.40	39½-27⅛	33	4.2
GREAT WESTERN SUGAR W.C. (mil.) '55—$36.0 W.C. (mil.) '56—$37.3	74.9[6]	80.3[6]	5.3	6.2	1.62[6]	2.19[6]	1.45	1.50	23½-19¼	21	7.1
HOLLY SUGAR W.C. (mil.) '55—$13.0 W.C. (mil.) '56—$13.2	51.1[5]	57.4[5]	3.4	3.3	2.47[5]	2.72[5]	1.20	1.20	23 -18½	19	6.3
LEADING CANE REFINERS											
AMERICAN SUGAR REFINING W.C. (mil.) '55—$37.6 W.C. (mil.) '56—$35.6	325.8	338.0	2.5	2.9	2.90	3.76	1.81	1.85	40 -21¾	32	5.7
NATIONAL SUGAR REFINING W.C. (mil.) '55—$13.0 W.C. (mil.) '56—$14.4	144.8	172.0	1.2	1.4	3.25	3.86	2.50	2.50	39 -33¼	34	7.3

W.C.—Working capital.
1—Fiscal years ended Sept. 30.
2—Fiscal years ended Oct. 31.
3—Fiscal years ended June 30.
4—Fiscal years ended July 31.
5—Fiscal years ended March 31, 1956 and 1957.
6—Fiscal years ended Feb. 28, 1956 and 1957.
7—Directors 3/19/57 deferred div. action.

CUBAN PRODUCERS

Cuban American Sugar: One of the more important Cuban producers, the company should show higher earnings at the end of current fiscal year. A dividend increase is expected. Small capitalization and large insider holdings limit marketability of the shares. C1

Cuban Atlantic Sugar: Although the overall pattern is one of wide sales and earnings fluctuation, the current outlook is good for both dividends and earnings. The shares are 65% controlled by directors of the company. C1

Francisco Sugar: A good earnings increase is expected for this smaller Cuban company. The stock has a limited market and is subject to wide price movements. Dividends are erratic but some increase is expected this year. Not suited to the average investor. C2

Manati Sugar: In common with the other Cuban producers, this moderate-sized unit should score further earnings gains this year. Dividends, absent since 1952, may be resumed. But over-all history is unattractive. C1

Vertientes-Camaguey Sugar. Another year-to-year earnings advance is expected, assuring larger dividends, since company pays out 100% of earnings to stockholders. Nevertheless, the shares are not suited to investment holdings. C1

West Indies Sugar: Company is a major Cuban producer and owned large interests in the Dominican Republic, but these were recently sold. Earnings have declined, but disposition of the funds obtained from property sales lend the stock broad speculative interest. C2

PUERTO RICAN PRODUCERS

Central Aguirre Sugar: Company escaped severe hurricane damage and should, therefore, benefit substantially from higher sales and prices. A dividend increase is in prospect. Highly speculative, but may be held. C1

Fajardo Sugar: One of the island's major companies, operations this year will be adversely affected by drought and hurricane damage. Earnings may fall behind those of a year ago, while continuation of drought conditions further cloud the near future. The stock is unattractive. C3

South Porto Rico Sugar: Higher earnings are in prospect from the company's Dominican and Puerto Rican production. With a high percentage of output sold in the world market, company should enjoy higher prices than most Puerto Rican producers. Some dividend increase is likely. C1

BEET SUGAR COMPANIES

Great Western Sugar: Higher acreage allotments, larger quotas, and higher selling prices should combine to increase current earnings. Current dividend rate should be maintained. For next year, however, the outlook is not as bright. C2

Holly Sugar: Company is second largest in the country, and offers a high yield on the speculative shares. Dividend and earnings are too unstable, however, to warrant purchase. C2

American Crystal Sugar: The next ranking beet processor, should show moderately improved earnings, but despite a recently increased dividend, the stock is not attractive. C2

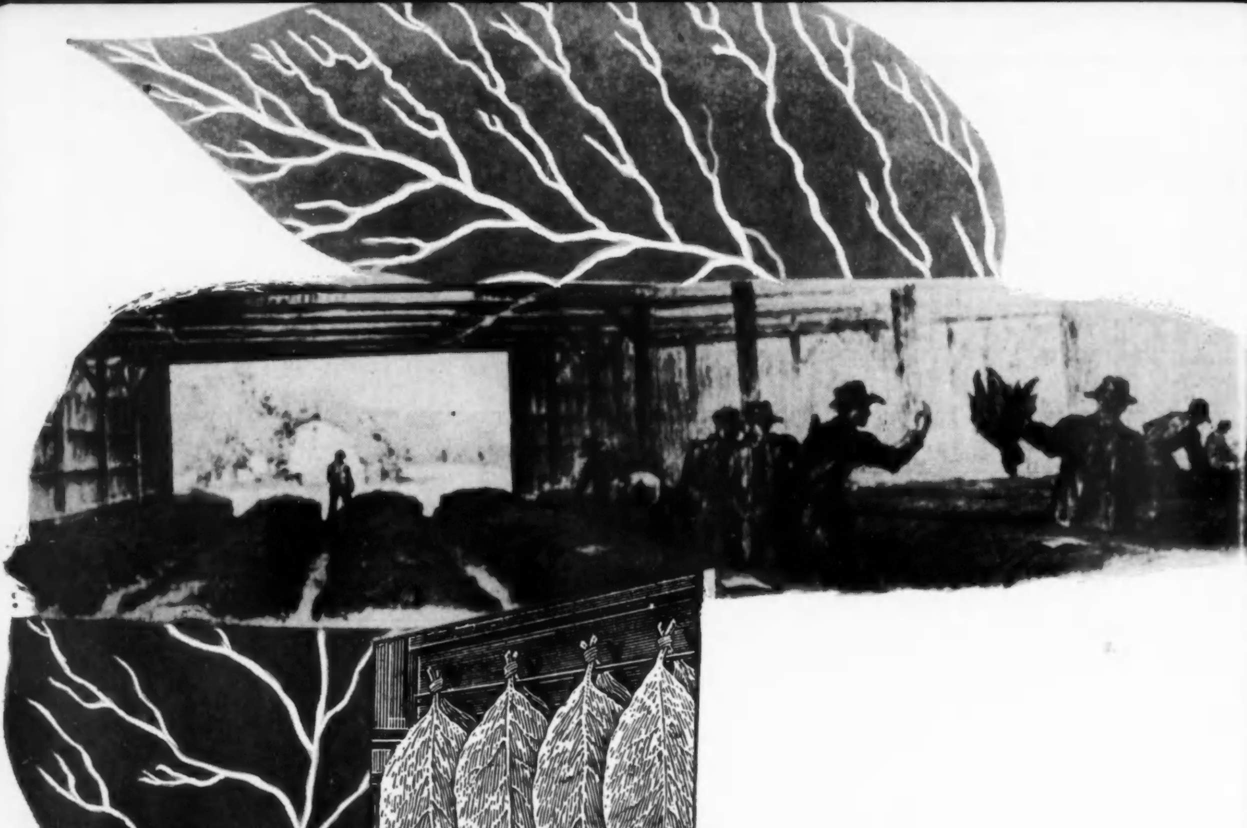
REFINING COMPANIES

American Sugar Refining: Outlook for refining profits is not too favorable, but rising earnings from the company's Cuban interests may lead to favorable year-to-year comparisons. The current dividend is a minimum expectation. The stock has some speculative appeal. B1

National Sugar Refining: Earnings will benefit from the contribution of the recently acquired Godchaux Sugars. Sales methods are aggressive and generally successful. Operating earnings may advance, but final results may be below last year's which included 69c per share in non-recurring profits. Dividends will probably remain unchanged. B2

RATING: A—High grade investment quality. B—Good Grade. C—Speculative. D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.



AS TOBACCOS FACE THE SECOND HALF

By WADE JOHNSON

The new blast by medical science on the possible relationship between puffing on tobacco products and developing any number of serious physical ailments, produced only a mild reaction on the part of investors. Additional pressure on the already long-depressed tobacco stocks was a natural corollary of the new indictment of smoking; however, although trading volume in these equities increased and prices drifted downward moderately, the pressure was mild compared with that which followed the initial cancer-cigarette scare in 1953 and 1954.

Tobacco people, by and large, have good reason to feel that their industry after several trying years, is regaining some of its lost ground. It is argued that the public is now fully aware of the controversy between medical science and the tobacco men, and it appears doubtful that sufficient evidence has been produced to lead substantial numbers of consumers to summarily quit puffing on their favorite brands of the short smoke. Also, it is noted, although the tobacco shares have declined well below their post-war peaks, sales and earnings generally nudged upward in 1956, held fairly stable in the initial quarter of 1957, and on the basis of a highly encouraging prediction on consumption of cigarettes by the Department of Agriculture coupled with a price hike on non-filter brands, the industry

conceivably in 1957 can at least equal last year's figures.

Manufacturers produced and shipped 16% more cigarettes in April this year than in the comparative month of 1956, and 6% more than in March, 1957. For the first four months of 1957, cigarette smoking rose 5% above the like period of last year. Bolstering these favorable figures was the subsequent mid-year forecast of the Department of Agriculture that Americans this year will probably burn up more cigarettes than ever before. While warning that its estimate could be upset by public reaction to recently released health-and-smoking studies, the government agency predicted that domestic consumption of cigarettes will top last year's 392 billion units and the 1952 peak of 394 billion. This would represent an increase of 3.4 per cent.

Total output of cigarettes by United States manufacturers for both domestic and overseas use will equal or exceed the 1952 high of 435½ billion, the Department said. Last year's production aggregated 424.2 billion. Output and consumption this year, it was added, are expected to regain ground lost when researchers started publicizing statistical findings linking smoking to cancer. This recovery got under way in 1955 and made tremendous strides during 1956, the agency noted.

The tobacco trade just isn't sitting back and taking a larruping—it is counter-fighting in many ways, for this venerable industry has been under fire in previous eras, and it has emerged from these battles as strong, if not stronger, than ever. It has formed its own Tobacco Industry Research Committee which has as its avowed goal the learning of all there is to know of medical facts. It has stepped up its program for producing more diversified, improved items, and it has certainly shifted into high gear where its advertising and promotion are concerned.

Competition Among Menthol Brands

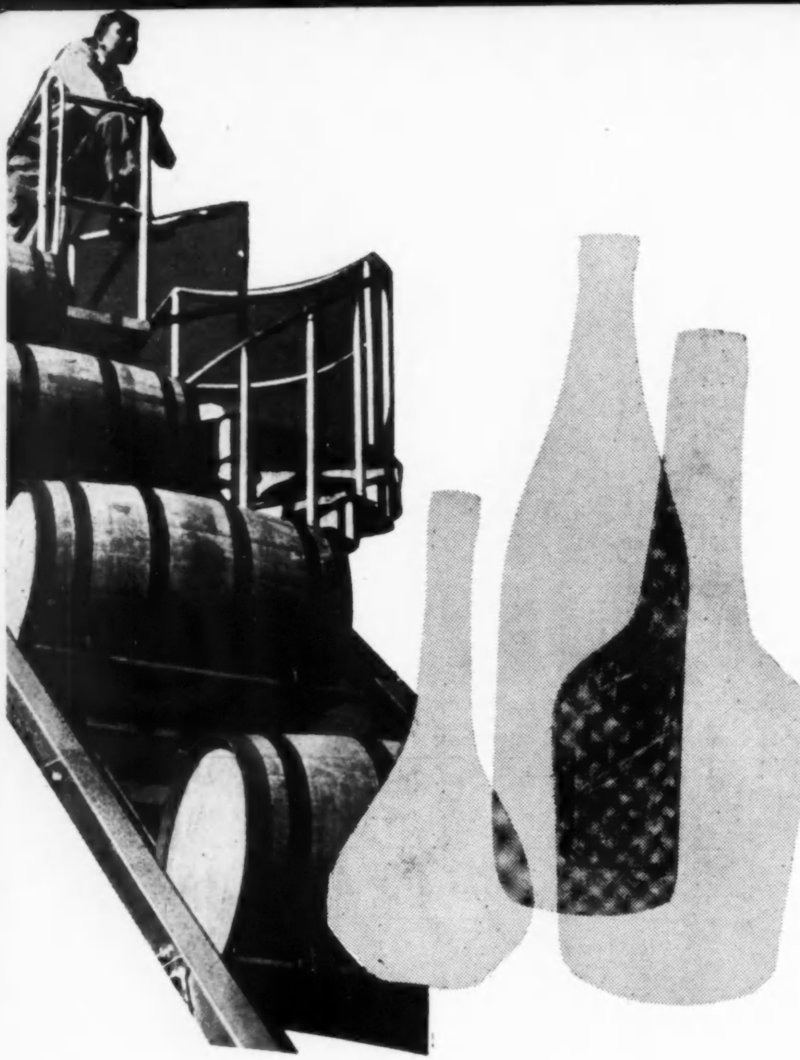
Cigarette makers, individually, continued their all-out efforts this year to catch the smoker's eye with new and brighter packaging. Flip-top boxes being adopted by more manufacturers, new color schemes and even a unique "zipper" attachment to permit the swifter opening of a package of cigarettes by the impatient smoker of this "jet age" were among the merchandising developments. And along came the mentholated smokes to further heat up competition in the (*Please turn to page* 556)

Position of Leading Tobacco Companies

	1st Quarter						Full Year						
	Net Sales		Net Profit Margin						Dividend Per Share				
	1956	1957	1956	1957	Net Per Share		Earned Per Share			Indicated	Price Range	Recent	Div.
	(Millions)		%	%	1956	1957	1956	1957	1956	1957	1956-1957	Price	Yield
AMERICAN SNUFF W.C. (mil. '55—$16.0 W.C. (mil.) '56—$16.4	n.a.	n.a.	....	....	$1.35	$1.16	$3.95	$4.05	$2.80	$2.90	46¾-40	41	7.0%
AMERICAN TOBACCO W.C. (mil.) '55—$555.8 W.C. (mil.) '56—$558.1	$251.0	$245.2	4.5%	4.1%	1.62	1.43	7.45	7.51	5.00	5.00	84¼-68⅛	72	6.9
BAYUK CIGARS W.C. (mil.) '55—$24.5 W.C. (mil.) '56—$22.1	8.7	7.7	2.1	2.5	.24	.26	1.65	1.70	1.00	1.00	19⅛-16	16	6.2
CONSOL. CIGAR W.C. (mil.) '55—$32.2 W.C. (mil.) '56—$38.1	16.4	17.5	3.3	3.2	1.03	1.01	5.04	5.14	1.20[1]	1.20	42⅛-30½	35	3.4
GENERAL CIGAR W.C. (mil.) '55—$28.3 W.C. (mil.) '56—$29.3	8.5	10.8	4.2	4.3	.57	.80	2.50	4.14	1.50	1.50	43 -30¼	38	3.9
HELME, G. W. W.C. (mil.) '55—$13.5 W.C. (mil.) '56—$13.5	n.a.	n.a.	....	....	.43	.46	1.79	1.68	1.70	1.60	26⅜-23¼	23½	6.8
LIGGETT & MYERS W.C. (mil.) '55—$332.7 W.C. (mil.) '56—$328.9	129.7	132.5	4.1	4.1	1.30	1.29	6.46	6.39	5.00	5.00	72⅜-61⅞	63	7.9
LORILLARD (P.) W.C. (mil.) '55—$112.4 W.C. (mil.) '56—$110.2	47.1	48.1	2.3	2.4	.33	.36	2.07	1.34	1.20	1.20	21⅛-15⅛	18	6.6
PHILIP MORRIS W.C. (mil.) '55—$136.3 W.C. (mil.) '56—$ 30.7	72.2	80.1	3.5	3.1	.79	.80	3.63	4.06	3.00	3.00	47 -39½	41	7.2
REYNOLDS TOB. "B" W.C. (mil.) '55—$445.2 W.C. (mil.) '56—$463.5	213.2	236.6	6.4	6.4	1.28	1.47	5.05	5.91	3.10	3.20	58½-49	54	5.9
U. S. TOBACCO W.C. (mil.) '55—$24.1 W.C. (mil.) '56—$22.9	6.9	6.3	9.1	9.8	.33	.32	1.42	1.47	1.20	1.20	19⅜-17	17	7.0

W.C.—Working capital.
n.a.—Not available.

[1]—Plus stock.



BEVERAGE COMPANIES

Adjust to Fluid Conditions

By JOHN D. C. WELDON

Notwithstanding the widespread popularity of cocktail parties, prospects for distillers and purveyors of alcoholic beverages leave something to be desired. Liquor sales registered an encouraging upturn last year, but the resurgence late in 1956 evidently traced in part to accumulation of inventories in clubs and homes in anticipation of price increases that became effective in January. In any event, consumption of "hard stuff" has not fulfilled optimistic expectations of distillers.

Either Americans are displaying greater restraint at taverns and country clubs as well as in their own cellars or sales of illegal liquor have been gaining ground. Many authorities on distilling feel convinced that the high excise tax on distilled spirits ($10.50 a gallon) affords a strong incentive for bootleggers. It is common knowledge that revenue agents have uncovered some large illicit production facilities in the last year or two.

Industry observers feel convinced, however, that conditions are likely to improve moderately this year and perhaps may exceed pessimistic projections. It is thought that inventories of bottled liquor stored last winter in preparation for price increases have been dissipated and that normal requirements may be evidenced in the second half of the year. Statistics suggest that the number of potential consumers of 21 years of age will begin to increase more rapidly in the next few years as the restricting influences (*Please turn to page* 560)

Statistical Data on Leading Soft Drink Companies

	Full Years: Net Sales 1955 (Millions)	Net Sales 1956 (Millions)	Net Profit Margin 1955 %	Net Profit Margin 1956 %	Net Per Share 1955	Net Per Share 1956	1st Quarter: Earned Per Share 1956	Earned Per Share 1957	Dividend Per Share 1956	Dividend Per Share Indicated 1957	Price Range 1956-1957	Recent Price	Div. Yield %
CANADA DRY W.C. (mil.) '55—$15.0 W.C. (mil.) '56—$18.1	$ 74.2[1]	$ 77.5[1]	4.7%	4.0%	$1.72[1]	$1.51[1]	$ .47[2]	$ .62[2]	$1.00	$1.00	17⅛-13	15	6.6%
COCA-COLA W.C. (mil.) '55—$99.8 W.C. (mil.) '56—$97.1	252.8	n.a.	10.8	.....	6.44	6.89	1.05	1.24	5.00	5.00	131½-98⅛	103	48
DR. PEPPER W.C. (mil.) '55—$2.5 W.C. (mil.) '56—$2.8	11.5	11.9	7.2	6.6	1.20	1.19	.14	.01	.60	.60	13 -10	10½	5.7
HIRES (CHAS. E.) W.C. (mil.) '55—$4.1 W.C. (mil.) '56—$4.2	10.1[1]	9.4[1]	3.9	4.1	1.02[1]	1.01[1]	[d] .55[2]	[d] .50[2]	.60	.60	12½- 9½	10½	5.7
NEHI CORP. W.C. (mil.) '55—$4.2 W.C. (mil.) '56—$4.1	14.2	15.8	8.9	8.3	1.27	1.34	.20	.21	.80	.80[3]	16¼-13⅝	15	5.3
PEPSI-COLA W.C. (mil.) '55—$18.5 W.C. (mil.) '56—$17.4	88.9	97.0	10.6	9.1	1.60	1.50	.25	.25	1.00	1.00	26¼-18½	22	4.5

W.C.—Working capital.
[d]—Deficit.
n.a.—Not available.
[1]—Fiscal years ended Sept. 30.
[2]—6 months ended March 31.
[3]—Plus stock.

Statistical Data on Leading Distillers

	Full Years: Net Sales 1955 (Millions)	Net Sales 1956 (Millions)	Net Profit Margin 1955 %	Net Profit Margin 1956 %	Net Per Share 1955	Net Per Share 1956	1st Quarter: Earned Per Share 1956	Earned Per Share 1957	Dividend Per Share 1956	Dividend Per Share Indicated 1957	Price Range 1956-1957	Recent Price	Div. Yield %
AMER. DISTILLING W.C. (mil.) '55—$19.0 W.C. (mil.) '56—$'8.6	$ 65.8	$ 71.4	1.7%	1.8%	$2.54	$3.07	$1.60[1]	$1.63[1]	$1.40	$1.60	29⅞-22⅝	27	5.9%
BROWN FORM. DIST. W.C. (mil.) '55—$34.4 W.C. (mil.) '56—$35.3	77.7[2]	97.3[2]	3.7[2]	2.6[2]	2.43[2]	2.03[2]	2.43[2]	2.03[2]	.80[7]	.80[7]	24¾-15⅝	19	4.2
DIST. CORP-SEAGRAMS W.C. (mil.) '55 W.C. (mil.) '56	735.6[3]	732.1[3]	4.1	3.1	3.54[3]	2.63[3]	2.87[4]	2.30[4]	1.70	1.70	39½-29⅜	30	5.6
NAT. DIST. & CHEM. W.C. (mil.) '55—$327.9 W.C. (mil.) '56—$317.0	500.1	543.1	3.1	3.7	1.60	2.11	.54	.53	1.00[7]	1.00	29⅜-20¾	26	3.8
PUBLICKER INDUSTRIES W.C. (mil.) '55—$81.9 W.C. (mil.) '56—$81.9	146.5	159.5	[d]1.2	.1	[d] .65	.005	.02	[d] .04	[8]	.....	10⅝- 7¾	8½	.....
SCHENLEY INDUSTRIES W.C. (mil.) '55—$273.7 W.C. (mil.) '56—$271.3	411.7[6]	404.1[6]	1.4	2.8	1.40[6]	1.93[6]	.69[5]	1.65[5]	1.00	1.00	23½-18	22	4.5
H. W'KER-GDHM. & W. W. C. (mil.) '55—$138.3 W.C. (mil.) '56—$144.5	341.2[6]	370.9[6]	5.6	5.6	6.70[6]	7.30[6]	3.83[5]	4.50[5]	4.00	4.00	86¾-64	81	4.9

W.C.—Working capital.
[d]—Deficit.
[1]—6 months ended March 31.
[2]—Years ended April 30, 1956 and 1957.
[3]—Year ended July 31.
[4]—9 months ended April 30.
[5]—6 months ended Feb. 28.
[6]—Year ended August 31.
[7]—Plus stock.
[8]—Paid 5% in stock.

SOFT DRINKS

Canada Dry Ginger Ale: Benefits of operating economies and vigorous promotional efforts expected to give impetus to earnings. Liquor imports also expected to help. Wider margin for $1 dividend indicated. (B1)

Coca-Cola: Growing population of potential customers and price increases contributing to wider margins. Unusual promotional expenses declining. Earnings gains indicated along with $1 extra dividend. (B1)

Dr. Pepper: Increased promotional efforts in broadening markets and rising distribution costs hampering margins. Little improvement in net profit over $1.19 for 1956 seen. Dividend of 60 cents safe. (C2)

Hires (Charles E.) Co.: Relatively restricted market and high costs of developing distribution indicate serious handicap on earnings. Disappointing results in recent years raise dividend doubts. (C3)

Nehi Corp.: Lacking vigorous promotional program, company appears likely to follow trend of last two years with modest improvement in volume and net profit. Ample coverage for 80-cent dividend. (C2)

Pepsi-Cola: Freed from repetition of labor problems, Pepsi is expected to benefit from aggressive advertising and enlarged markets. Promise of earnings gains over $1.50 of 1956 spurs dividend hopes. (B3)

RATINGS:
A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

DISTILLERS

American Distilling: Improvement in operating results experienced last year is believed to have continued, suggesting satisfactory gain for year ending September 30. Some hope of another dividend rise. (C2)

Brown-Forman Distillers: Reasonably satisfactory outlook for maintenance of earnings at about an average of the last two years. Company frequently mentioned as potential merger candidate. (C2)

Distillers Corp.-Seagrams: Earnings for fiscal year ending this month expected to recover from 1956 setback due in part to write-off on oil properties. Usual 50-cent year-end dividend indicated. (B2)

National Distillers & Chemical: Growing importance of chemicals as earnings potential being reflected along with modest improvement in liquor volume. Repetition of small stock dividend expected. (C2)

Publicker Industries: Erratic trends in industrial alcohol and marketing problems in branded whiskies help explain disappointing showing in recent years. Moderate recovery possible this year. (D2)

Schenley Industries: Further earnings recovery for fiscal year ending next month indicated, but progress in non-alcoholic ventures has been unpromising. Excessive supplies pose marketing problem. (C2)

Walker (Hiram)-Gooderham & Worts: Leading Canadian distiller continues to register strong gains in U.S. Net profit for fiscal year ending next month likely to top last year's $7.30 a share. (B2)

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

FOR PROFIT AND INCOME

Improved

The sell-off to the late-June lows looks rather moderate in retrospect, but it did cancel over a fourth of the prior upswing of the industrial average, while the retracement exceeded one half for both the rail and utility averages. It significantly strengthened the technical basis for an extension of the February-June rise into the July-August period. The industrial average required only five trading sessions to complete its sell-off, and only seven sessions to get back above its June 24 high, which was penetrated with a goodly expansion of trading volume. Thus, an early test of 1956's double tops around 521 in April and August seems likely at this writing; and the average's chances of "going through" to a new all-time high now seem to be better than 50-50, as judged solely by the technical indications.

Limited

Don't let the above statement excite you. Given a penetration of the 521 level of the average, the net addition should be modest —and could be temporary—in view of the fact that prospects for business, earnings and dividends are merely "fair-to-middling" at best. If excessive enthusiasm should take the average more than a relatively small percentage above the old top, it would be reasonable to expect a sizable late-summer or early-autumn sell-off. Because there is no solid basis for sustained wide advance or decline, the average has long been gyrating in moderate up-and-down swings without going any place to speak of. Its range from low to high last year was less than 13%, and has been about the same this year to date. Its net gain in 1956 was an uninspiring 3.5%, and its net gain from the start of 1957 to this writing has been less than 2.8%. In terms of net movement by the average over 6-to-12-month periods, it still looks to us like a "small-change" market.

Mixed

In this "market of stocks" no representative index of average stock prices figures to "go to town" or to "fall out of bed" in anything like the present economic-financial environment, because on a week-to-week basis — and more so on a month-to-month

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1957	1956
Macy (R. H.) & Co.	13 Weeks May 4	$ 18	$ .12
Kerr-McGee Oil Indust.	Quar. Mar. 31	1.20	.62
Todd Shipyard Corp.	Year Mar. 31	18.46	7.07
Grayson-Robinson Stores	9 mos. April 30	.75	.55
Oliver Corp.	Quar. April 30	.20	.10
Smith, A. O., Corp.	Quar. April 30	3.28	2.22
Eastern Gas & Fuel Assoc.	12 mos. April 30	4.41	2.02
Gimbel Brothers, Inc.	Quar. April 30	.52	.37
Pet Milk Co.	Quar. Mar. 31	.66	.08
Twentieth Cent.-Fox Film	13 weeks Mar. 30	.82	.17

basis – the strong stocks, soft stocks and duds largely balance out when their prices are lumped into an average. If you took oils out of the Dow average, it would at this time be down from the start-of-the-year level. For this year to date, the oil group is up about 13%. Other big winners are drugs, up roughly 23%, office equipment 22%, electrical equipment 14% and sugars 10%. Oils, drugs and office equipments have risen considerably above their 1956 highs. They are still faring well, but they cannot carry the whole market. Unless some of the laggard or so-so groups can come to life, the industrial average will not find it easy to match, or get more than a thin margin above, its 1956 top. Emphasizing the extraordinary weight oils have had in this market, they accounted for nearly 63% of the net increase in total dollar value of Big Board stocks in the six months to June 30.

Laggards

Stock groups which show decidedly unimpressive chart patterns include air transport, aircraft, chemicals, lead and zinc, paper, television-radio and textiles. Groups which up to now show no technical signs of promising anything better than trading-range fluctuation include aluminum, automobiles, auto parts, building materials, coppers, finance companies, foods, machinery, farm equipments, metal fabricators, soft drinks, motion pictures and retail stocks. In terms of the number of individual bull-trend stock groups, the breadth factor in this market is not impressive up to now; and the same is so when measured by total weekly new highs and new lows by individual stocks. Even so, minority leadership could put the average moderately higher for a time.

Strong

Stocks performing significantly better than the market at this writing include Air Reduction, American Brake Shoe, American Chain, American Cyanamid, American Home Products, American Machine & Foundry, Baltimore & Ohio, Barber Oil, Beckman Instruments, Daystrom, El Paso Natural Gas, Federal Mogul, Foster Wheeler, General Electric, Gimbel, Goodyear, Grand Union, International Business Machines, Johns-Manville, Merck, National Cylinder Gas, National Gypsum, Parke Davis, Pfizer, Revlon, Ruberoid, Safeway Stores, Spencer Chemical, Standard Oil of California, Sunbeam, Vick Chemical and Warner-Lambert.

Soft

Although bargains can develop in some instances, as a general rule it pays to avoid stocks which are behaving materially worse than the market. Here are some examples, none of which strikes us as a good buy at present levels: American Bank Note, Bulova Watch, Cessna Aircraft, Fairbanks Morse, Mallory, Mojud, Lockheed, Miami Copper, Copper Range, Gar Wood, Garrett, Congoleum, Coty, Magma Copper, Swift and United Fruit.

No Wonder

Current earnings certainly do not support the case for a higher rail market. Total net income of Class I roads ran more than 11% under the year-ago level in five months through May; and the May showing was miserable, with net more than 24% under a year ago. June earnings no doubt were well under a year ago. It is no wonder the rail average has been stymied for some time in a narrow range. Are these stocks going to be bought merely because absence of the 1956 steel strike assures a good year-to-year comparison in July and because of a likely freight-rate boost before long? Or are disappointed and very tired holders hanging on with the idea of selling on the first "half-way decent" rally? We would guess the latter, and therefore not expect any great rally.

Recommendations

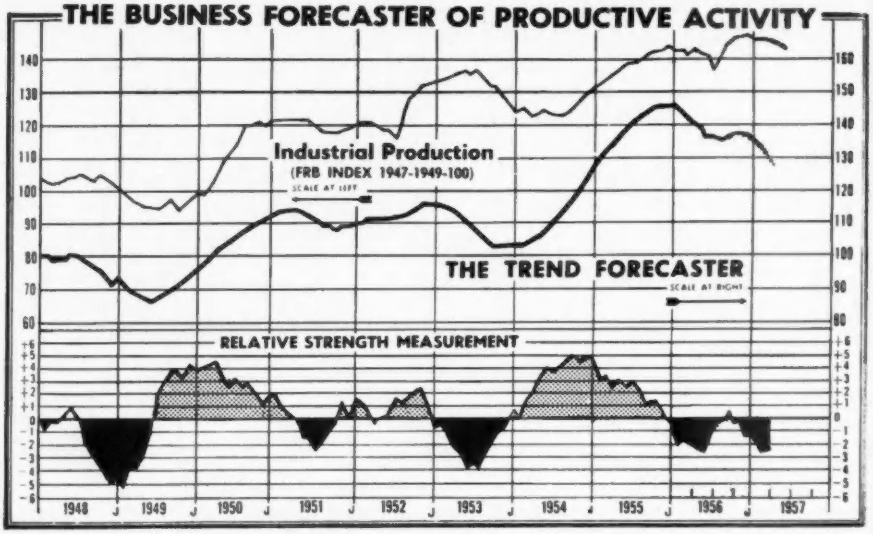
At a time when new issues of corporate bonds yield anywhere from 4.5% to 6%, and when rising living costs take another nibble out of the value of the dollar month after month, straight income stocks (those with little or no chance for higher dividends) have about as much investment appeal as you could put into the eye of a needle. On the other side of the street, the great majority of growth stocks are higher than a kite. That leaves cyclical-type stocks–the great majority without much, if any, market "sex appeal"–and an occasional special situation. Hence, buying recommendations that make sense are hard to come by. Air Reduction was recommended here most recently in the June 8 issue around 58, and earlier at lower levels. It is at 65 at this writing. We still like it on a longer-range basis; but are not keen about it at 65. Retain holdings. Defer new buying, at least pending a price dip . . . Mead Johnson was recommended here around 39 in the April 27 issue and up to 49 in the June 8 issue. It ran up to a high of 57 and is currently at 51. We would prefer to buy it on more of a dip, but drug stocks are in vogue; and this one is more reasonably priced than most both on current earnings and longer-range potentials. Why quibble over a point or two in price? Buy it . . . Merck and Pfizer were recommended here at various lower levels. With the former close to 40 at this writing and the latter around 61, they begin to look amply valued on medium-term potentials. It may be a good idea to take profits on half of holdings, thus largely writing down average per share costs; and let the rest ride . . . McGraw-Hill was recommended most recently at 35¾ last January and at various much lower levels earlier. It recently reached a new all-time peak of 48. The stock is not extreme on potentials. Neither is it at all cheap. We again suggest a compromise. Stay with it. Defer

(*Please turn to page* 567)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

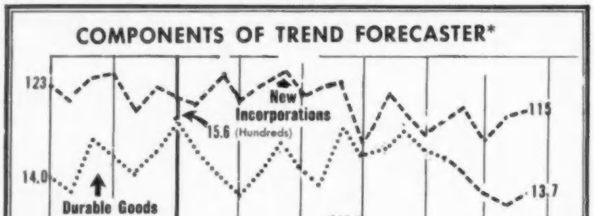
		1957	1956
Tennessee Corp.	Quar. Mar. 31	$1.20	$1.68
Elgin National Watch	Year Mar. 2	.74	1.01
Motor Products Corp.	Quar. Mar. 31	.24	.39
Grumman Aircraft	Quar. Mar. 31	.41	.80
Hamilton Watch Co.	Quar. Apr. 30	.10	.76
Hilton Hotels Corp.	Quar. Mar. 31	.77	2.25
Minute Maid Corp.	6 mos. May 5	.05	.51
Cudahy Packing Co.	6 mos. Apr. 27	.37	2.06
Compo Shoe Machinery	Quar. Mar. 31	.13	.42
Armour & Co.	6 mos. May 4	.27	2.24

the Business A



Business Trend Forecaster

***W**ith the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.**



*—Seasonally adjusted except stock and commodity prices.
(a)—3 month moving average.

This we have done in our new *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

When the *Forecaster* changes its direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

The latest available figures for the components of the **Trend Forecaster** continue mixed.

Throughout the second quarter, housing starts and nonresidential construction contracts appear to have worked their way uphill. Stocks have moved irregularly upward, and commodity prices slowly downward. Durable goods orders fluctuated without a trend, but ran at levels considerably below the preceding several quarters. New incorporations and business failures have shown no clear trend.

The offsetting movements among these indicators have kept the **Relative Strength Measurement** conspicuously negative, although at a somewhat better level than prevailed at the end of the first quarter.

The indicators summarized in the **Trend Forecaster** continue to point to moderate readjustment. They suggest neither upturn nor sharp, cumulative recession in the next several months. Through the first quarter of this year, the pattern of the indicators bore a strong resemblance to late 1948, a period that was followed by a clear, although mild, recession. More recently, this resemblance has begun to dwindle. The slow downtrend in the **Forecaster,** combined with stability in the moderately negative range for the relative strength measure, is typical of a period of rolling adjustment.

Analyst

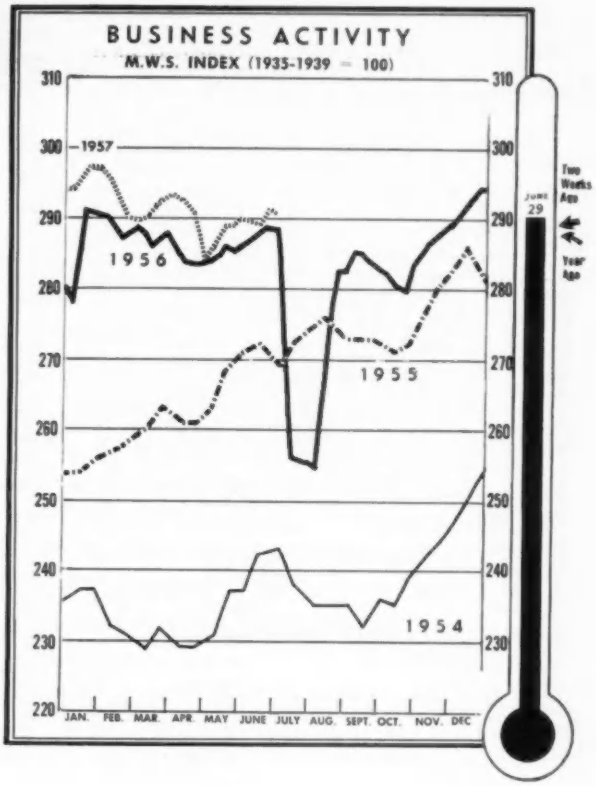
CONCLUSIONS IN BRIEF

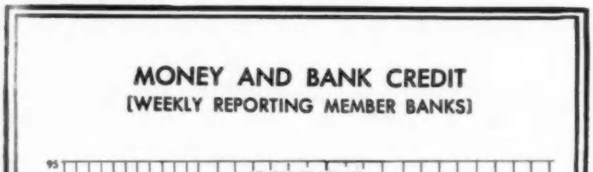
INDUSTRY — **Production pace dipping in July, owing partly to extended vacation schedules, partly to general easiness in demand. Chemicals among few industries showing rises. Outlook; more downward drift into Fall.**

TRADE — **Still moving sideways. Soft goods volume still satisfactory, but not outstanding. Hard goods erratic; refrigerator and air-conditioner sales fluctuate with weather. Auto volume still at a 5.8 million annual pace. Outlook; little or no strength into Fall.**

MONEY AND CREDIT — **Bond yields rose sharply in June but eased a bit in July. Short-term money passed a crisis at mid-June, related to tax borrowing. Outlook; short-term stability in interest rates, for several months.**

COMMODITIES — **Big drops in metal prices — copper, lead, zinc — may now be nearing an end, but no short-term strength visible in commodity outlook. Curtailment in output continues in raw materials industries, but demand also continues slack. Price outlook; easy in July and August.**





For the past several quarters, the eyes of analysts have been fixed on the fourth quarter of 1957, as a period of a possible clear turning point in the business trend, either upward or downward. However, the fourth quarter will grow out of the third quarter; it is appropriate now to take a close look at the developing trends of the summer of 1957.

In early July, the consumer was still holding to the $16.4 billion monthly sales rate (after seasonal adjustment) that has prevailed ever since late 1956. However, it is worth noting that consumer prices, in general, are now about 2% above their levels six months ago; **the physical volume of retail trade is thus running very slightly downhill.**

There is no indication that this downhill tilt will be reversed in the third quarter. The main reason for this conclusion is that the incomes out of which retail sales emerge are also on a plateau; the slight uptilt in national wage levels is being offset by a persistent shortening of the workweek, so that take-home pay has remained about unchanged for the industrial worker. Indeed, about the only group whose pay has been rising in recent months has been the recipients of social security benefits.

Capital goods demand is also sidling along without a trend. Despite greatly increased capital flotations (mainly by public utilities) the total spending rate for new plant and equipment has now stopped rising. And **ordering** rates in capital goods—as distinguished from **delivery** rates—are in a relatively sharp decline. The third quarter is thus not likely to see any new stimulus in this area.

(Please turn to following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	May	143	144	141
Durable Goods Mfr.	1947-'9-100	May	160	161	157
Nondurable Goods Mfr.	1947-'9-100	May	130	130	129
Mining	1947-'9-100	May	128	128	128
RETAIL SALES*	$ Billions	May	16.4	16.3	15.9
Durable Goods	$ Billions	May	5.7	5.6	5.4
Nondurable Goods	$ Billions	May	10.7	10.7	10.5
Dep't Store Sales	1947-'9-100	May	124	122	122
MANUFACTURERS'					
New Orders—Total*	$ Billions	May	28.2	27.8	28.8
Durable Goods	$ Billions	May	13.7	13.0	14.7
Nondurable Goods	$ Billions	May	14.5	14.7	14.1
Shipments*	$ Billions	May	28.6	28.6	27.8
Durable Goods	$ Billions	May	14.1	14.2	13.8
Nondurable Goods	$ Billions	May	14.4	14.4	14.1
BUSINESS INVENTORIES, END MO.*	$ Billions	May	89.7	89.3	85.1
Manufacturers'	$ Billions	May	52.8	52.6	48.6
Wholesalers'	$ Billions	May	13.0	13.1	12.7
Retailers'	$ Billions	May	23.9	23.7	23.9
Dept. Store Stocks	1947-'9-100	May	140	141	134
CONSTRUCTION, TOTAL	$ Billions	June	4.4	4.0	4.3
Private	$ Billions	June	3.0	2.8	3.0
Residential	$ Billions	June	1.5	1.4	1.7
All Other	$ Billions	June	1.5	1.4	1.3
Housing Starts*—a	Thousands	May	990	940	1,146
Contract Awards, Residential—b	$ Millions	May	1,297	1,232	1,311
All Other—b	$ Millions	May	2,103	1,545	1,669
EMPLOYMENT					
Total Civilian	Millions	May	65.2	64.3	65.2
Non-Farm	Millions	May	52.4	52.2	51.6
Government	Millions	May	7.4	7.4	7.2
Trade	Millions	May	11.4	11.4	11.1
Factory	Millions	May	12.8	13.0	13.1
Hours Worked	Hours	May	39.7	39.8	40.0
Hourly Earnings	Dollars	May	2.06	2.06	1.96
Weekly Earnings	Dollars	May	81.78	81.99	78.40
PERSONAL INCOME*	$ Billions	May	340	339	323
Wages & Salaries	$ Billions	May	235	235	223
Proprietors' Incomes	$ Billions	May	52	52	50
Interest & Dividends	$ Billions	May	31	31	29
Transfer Payments	$ Billions	May	22	21	19
Farm Income	$ Billions	May	15	15	15
CONSUMER PRICES	1947-'9-100	May	119.6	119.3	115.4
Food	1947-'9-100	May	114.6	113.8	111.0
Clothing	1947-'9-100	May	106.5	106.5	104.8
Housing	1947-'9-100	May	125.3	125.2	120.9
MONEY & CREDIT					
All Demand Deposits*	$ Billions	May	106.6	107.3	106.0
Bank Debits*—g	$ Billions	May	85.4	82.5	79.4
Business Loans Outstanding—c	$ Billions	May	31.0	31.5	27.8
Instalment Credit Extended*	$ Billions	May	3.5	3.5	3.3
Instalment Credit Repaid*	$ Billions	May	3.3	3.3	3.1
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	May	5.3	4.3	5.0
Budget Expenditures	$ Billions	May	5.9	6.0	5.5
Defense Expenditures	$ Billions	May	3.9	3.8	3.4
Surplus (Def) cum from 7/1	$ Billions	May	(0.6)	(1.7)	(0.5)

PRESENT POSITION AND OUTLOOK

Defense spending, too, appears to have been at least moderated by the worldwide interest in disarmament discussions. For the short-term, a further slight rise is doubtless in prospect, but here too, new orders for defense goods are no more than firm.

The big potential boosters for the business trend in the third quarter are thus residential building activity, which is now in a moderate uptrend, and government expenditures for public construction—roads and schools primarily. Figures in these two areas bear close watching for their implications for the fourth quarter.

* * *

HOUSING UPTREND? — In the second quarter, the rate of new residential building starts rose somewhat more than seasonally, and has moved into the third quarter at about a 1-million per year rate. This is somewhat less than the rate that prevailed last summer, but it is hearteningly better than the 900-thousand rate of the first quarter of this year. The gain is being treated in many quarters as a sign of general resurgence in this critical market. As further evidence that there is at least a little substance to this view, it might be noted that the rate of contract awards for residential building in May were markedly better than in earlier months of the year. Moreover, new housing legislation in Washington has clearly eased the down-payment provisions of guaranteed (FHA-VA) mortgages.

Nevertheless, two or three monthly advances do not make a boom, and it would be judicious to take a cautious view of the housing trend even now. Conditions have certainly been improved legislatively, and 1 million starts this year is still a possibility. But money, particularly long-term money, remains extraordinarily tight, and the Housing Act of 1957 is doing little or nothing to ease this crucial aspect of the housing market. It is even possible that the improvement in starts is not being accompanied by an equivalent improvement in sales. If so, the rise in starts is likely to be quite short-lived. Watch and wait is still the best advice for those interested in the course of residential building.

* * *

PRODUCTION TRENDS — according to the Federal Reserve, the national rate of output in the industrial sector declined slightly in March, April and May. The decline is well borne out by the slow downdrift in the number of factory

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	—1957— I Quarter	—1956— IV Quarter	III Quarter	I Quarter
GROSS NATIONAL PRODUCT	427.1	423.8	413.8	403.4
Personal Consumption	275.0	270.9	266.8	261.7
Private Domestic Invest.	63.3	68.5	65.1	63.1
Net Foreign Investment	4.0	2.4	1.7	0.1
Government Purchases	84.9	82.0	80.2	78.7
Federal	49.8	48.3	47.2	46.1
State & Local	35.0	33.7	33.0	32.6
PERSONAL INCOME	336.5	333.2	327.0	317.5
Tax & Nontax Payments	41.0	39.9	38.8	37.3
Disposable Income	295.4	293.3	288.2	280.2
Consumption Expenditures	275.0	270.9	266.8	261.7
Personal Saving—d	20.4	22.4	21.4	18.5
CORPORATE PRE-TAX PROFITS*	46.5(e)	45.8	41.2	43.7
Corporate Taxes	23.5(e)	23.1	20.8	22.1
Corporate Net Profit	23.0(e)	22.7	20.4	21.6
Dividend Payments	12.3(e)	11.9	12.3	11.8
Retained Earnings	10.7(e)	10.8	8.1	9.8
PLANT & EQUIPMENT OUTLAYS	36.9(e)	36.5	35.9	32.8

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	June 29	290.7	291.5	288.2
MWS Index—per capita*	1935-'9-100	June 29	220.9	222.5	223.7
Steel Production	% of Capacity	July 6	126.0	133.8	18.8
Auto and Truck Production	Thousands	July 6	97.7	160.4	89.2
Paperboard Production	Thousand Tons	June 29	273	275	282
Paperboard New Orders	Thousand Tons	June 29	270	231	257
Electric Power Output*	1947-'49-100	June 29	232.1	235.5	221.0
Freight Carloadings	Thousand Cars	June 29	732	747	755
Engineering Constr. Awards	$ Millions	June 27	330	371	379
Department Store Sales	1947-'9-100	June 29	107	119	105
Demand Deposits—c	$ Billions	June 26	55.7	56.3	56.2
Business Failures	Number	June 29	271	241	249

PRESENT POSITION AND OUTLOOK

workers, and by the slow but persistent decline in average hours worked per factory worker.

A relatively large part of the total drop in production has thus far been owing to a sharp falling off in consumer durables production, related to the inventory gluts that developed in these markets early in the year. But currently weakness is also appearing in industrial machinery, notably machine tools. In the summer two major bellweather industries—steel and automobiles—are likely to suffer further declines. **It is thus hard to see how the Federal Reserve's index of industrial production, which has slid from 146 to 143 in recent months, can do better than the low 140's in July and August.**

* * *

THE MONEY SUPPLY—this is a hot corner of the business news. Should the supply be allowed to grow, to make room for further national growth? Or is any increase now inflationary? Whatever the answer, the fact is that the Federal Reserve has allowed little or no growth in active money supply for a year; demand bank deposits, the core of the money supply, are now almost precisely what they were a year ago. Virtually all of the growth of money available to the economy has taken the form of time savings deposits — considered inactive, and largely non-inflationary.

*—Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge, for 48 states. (c)—Weekly reporting member banks. (d) Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau. (na)—Not available. (r)—Revised. (I)—First Quarter.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1957 Range High	1957 Range Low	1957 June 28	1957 July 5
300 Combined Average	345.1	322.3	337.0	344.2
4 Agricultural Implements	282.4	247.1	247.1	257.9
3 Air Cond. ('53 Cl.—100)	122.8	110.2	115.9	119.4
9 Aircraft ('27 Cl.—100)	1388.8	1110.3	1138.8	1124.6
7 Airlines ('27 Cl.—100)	1002.5	751.9	771.9	782.0
4 Aluminum ('53 Cl.—100)	464.5	375.8	435.0	464.5H
6 Amusements	172.6	151.8	159.2	160.7
9 Automobile Accessories	384.4	341.7	377.3	380.8
6 Automobiles	53.3	47.6	51.9	53.3H
4 Baking ('26 Cl.—100)	28.9	26.3	28.1	28.9
3 Business Machines	1223.6	956.2	1182.4	1213.3
6 Chemicals	640.3	556.6	622.3	640.3H
4 Coal Mining	25.1	22.3	22.3	23.0
4 Communications	104.1	94.5	101.2	104.1
9 Construction	126.8	118.1	123.1	126.8
7 Containers	792.3	739.5	784.8	792.3H
7 Copper Mining	307.6	255.9	258.9	262.0
2 Dairy Products	112.4	103.8	107.0	112.4H
6 Department Stores	89.2	80.1	86.7	88.4
5 Drugs-Eth. ('53 Cl.—100)	242.7	175.2	235.4	242.7H
6 Elec. Eqp. ('53 Cl.—100)	242.1	215.0	237.6	242.1H
2 Finance Companies	584.5	525.0	557.6	557.6
6 Food Brands	277.5	264.0	272.1	277.5
3 Food Stores	178.9	153.8	170.5	178.9H

(Nov. 14, 1936 Cl.—100)	High	Low	1957 June 28	1957 July 5
100 High Priced Stocks	235.2	215.6	230.1	235.2H
100 Low Priced Stocks	415.8	387.6	392.5	399.1
4 Gold Mining	726.2	627.2	660.2	686.6
4 Investment Trusts	184.5	166.7	179.6	184.5H
3 Liquor ('27 Cl.—100)	1094.5	965.2	1034.8	1044.8
9 Machinery	523.4	477.2	492.6	518.2
3 Mail Order	174.6	157.5	160.9	164.4
4 Meat Packing	142.6	117.4	121.6	130.0
5 Metal Fabr. ('53 Cl.—100)	196.4	175.4	190.7	194.5
10 Metals, Miscellaneous	420.9	376.4	380.4	384.5
4 Paper	1060.1	904.2	976.9	997.7
22 Petroleum	914.4	749.7	873.2	897.9
21 Public Utilities	263.6	251.3	251.3	256.3
7 Railroad Equipment	91.4	82.7	83.5	83.5
20 Railroads	72.7	65.7	67.1	67.8
3 Soft Drinks	509.8	445.5	479.8	484.1
12 Steel & Iron	393.0	330.1	353.7	365.5
4 Sugar	116.9	97.9	116.9	115.0
2 Sulphur	916.3	815.4	874.2	882.6
11 Television ('27 Cl.—100)	36.0	31.6	35.3	36.0H
5 Textiles	149.9	124.7	131.7	131.7
3 Tires & Rubber	195.7	164.0	188.3	195.7H
5 Tobacco	91.3	87.0	87.9	89.6
2 Variety Stores	273.7	258.2	258.2	260.8
15 Unclassif'd ('49 Cl.—100)	167.4	153.8	164.4	167.4

H—New High for 1957.

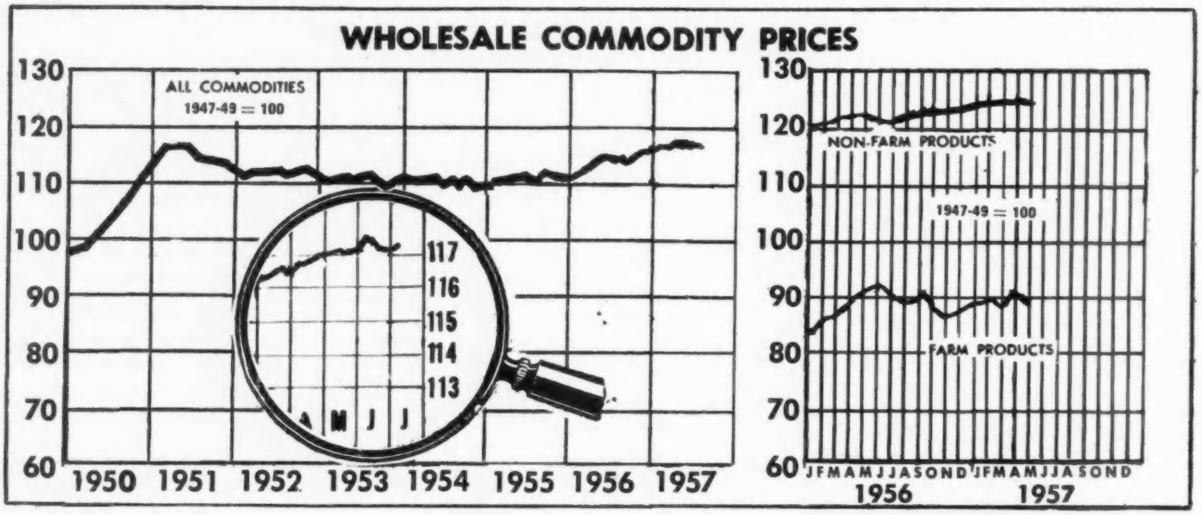
Trend of Commodities

SPOT MARKETS — Sensitive spot commodity prices worked a bit higher in the two weeks ending July 5 and the Bureau of Labor Statistics' index of 22 such commodities added 0.9% to close at 90.1% of the 1947-1949 base period. Foods, livestock, fats and oils, metals and industrial materials all were higher although the last named registered no more than a minimal 0.1% advance.

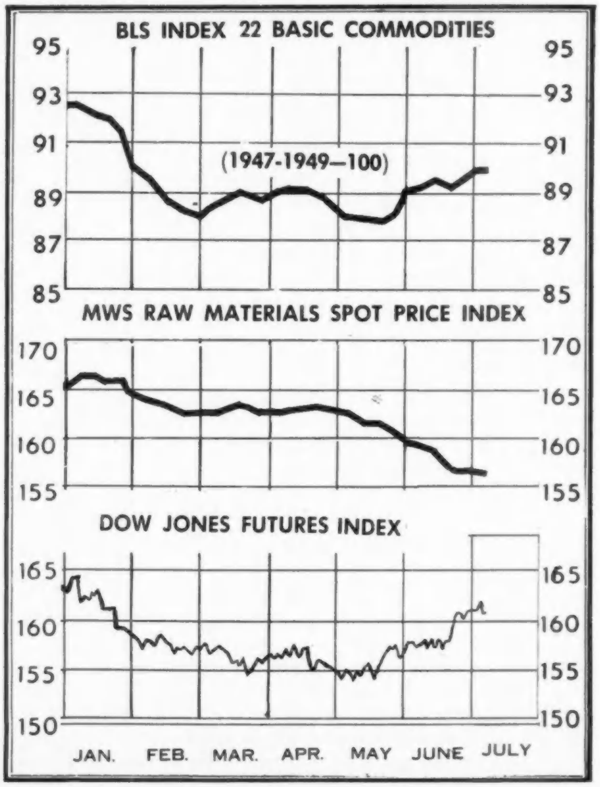
During the period, the BLS comprehensive commodity index advanced 0.1%. The long-term strength in this index is indicative of the general uptrend in prices which has aroused general alarm concerning inflationary tendencies. Thus far, businessmen have generally been able to pass higher costs on to consumers. Whether this can be continued indefinitely will be an important determinant of price trends in coming months.

FUTURES MARKETS — Futures prices were preponderantly higher in the two weeks ending July 5, although gains were moderate in most cases. The Dow-Jones Commodity Futures Index advanced 0.96 points during the period to close at 160.83.

Wheat futures were buoyant late in June but surrendered a good part of these gains early in July. Wheat prices are greatly dependent on weather developments at this time. Constant rains last month hindered harvesting operations in the Southwest and aroused fears of material crop damage. More recently, improved weather conditions brought sellers into the market, although harvesting is running several weeks later than normal. Without any important developments in sight for wheat in the near future, prices may remain in a trading range without any clear-cut trend.



BLS PRICE INDEXES 1947-49—100	Date	Latest Date	2 Wks. Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	July 2	117.4	117.3	114.0	60.2
Farm Products	July 2	90.4	90.7	90.0	51.0
Non-Farm Products	July 2	125.4	125.3	121.4	67.0
22 Basic Commodities	July 5	90.1	89.3	88.2	53.0
9 Foods	July 5	86.2	84.3	80.3	46.5
13 Raw Ind'l. Materials	July 5	92.9	92.8	94.0	58.3
5 Metals	July 5	103.8	102.9	115.1	54.6
4 Textiles	July 5	83.4	83.7	79.3	56.3



MWS SPOT PRICE INDEX

14 RAW MATERIALS

1923-1925 AVERAGE—100

AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1957	1956	1953	1951	1945	1941
High of Year	166.3	169.8	162.2	215.4	98.9	85.7
Low of Year	156.2	163.1	147.9	176.4	96.7	74.3
Close of Year		165.5	152.1	180.8	98.5	83.5

DOW-JONES FUTURES INDEX

12 COMMODITIES

AVERAGE 1924-1926—100

	1957	1956	1953	1951	1945	1941
High of Year	163.4	166.7	166.5	214.5	106.4	84.6
Low of Year	154.5	149.8	153.8	174.8	93.9	55.5
Close of Year		162.7	166.8	189.4	105.9	84.1

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities at* reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Sperry Rand Corporation

"Please submit comparative earnings data on Sperry Rand Corp. for the past two fiscal years. Also dividend payments and any new developments."

D.M., Schenectady, N.Y.

Sperry Rand Corp. sales and net income for the fiscal year ended March 31, 1957 set new records for the corporation and its predecessor companies on a combined basis.

Sales soared 23% to $871,047,-239, compared with $710,696,087 for the previous fiscal year. Net income was $49,612,352, equal to $1.83 on the average 26,887,722 shares outstanding, compared with $46,348,878, equal to $1.81 per share on the average of 25,-322,841 outstanding shares in 1956.

Sales other than U.S. Government defense business accounted for 59% of the total Sperry Rand volume and for 64% of the net income before taxes. This included foreign business which comprised 21% of the corporation's consolidated sales.

Net income, while up 7%, was 5.7% of the sales volume, compared with 6.5% in the previous fiscal year. Rising costs of material and labor, a lower percentage of profit on an increased amount of Government business, expenses incurred in carrying out a substantial expansion program, and heavy research and product development costs were among the factors mentioned as influencing the profit margin. Expenditures for modernization and expansion, together with investment and business machines for rental, totalled $67,254,000 during the fiscal year, compared with $41,-053,000 the previous year.

Shipments of instruments and controls, which approximated 40% of sales, increased by 33%, an all-time record. Sales of business machines, equipment and supplies likewise were at an all-time high, increasing by 21% and accounting for 31% of the overall volume. Contributing to this record were a 47% increase in sales and rentals of the Remington Rand division Univac electronic computers and tabulating equipment, and a 50% surge in domestic unit sales of typewriters.

Hydraulic equipment shipments, with 11% of the gross sales, were up 27% over the previous year, but farm machinery volume was off by 17%. Foreign volume increased by 36%.

Working capital for the fiscal year increased to $240,392,218 from $206,137,052 and net investment in property, plant, equipment and rental machines jumped to $184,243,039 from $138,848,-439. Management is giving consideration to additional long term financing to provide funds needed to carry on its program of expanded operations.

Company officials believe the outlook in the various fields in which Sperry operates is favorable for continued growth, barring major adverse business developments.

Like most businesses today, the company is faced with problems of competitive pressures coupled with rising costs and higher working capital requirements. Nevertheless, the demand for technological improvements of weapons and machines, including electronic data-processing equipment, favors those companies that have special competence and experience in the techniques required, such as electronics, hydraulics, electro-mechanics, and gyro-controlled mechanisms. These are combined in Sperry to an exceptional degree.

Carborundum Company

"I have been a subscriber for a number of years and would appreciate receiving late data on Carborundum Co. new developments."

P.F., Philadelphia, Pa.

Carborundum Co. is a leading manufacturer of abrasives. Carborundum achieved sales of $104,-873,499 in 1956 and topped all sales records in the company's 65 year history, exceeding the previous high in 1955 by 13%.

Consolidated net income after taxes was $6,327,758, an increase of 22% over net income in 1955, equal to $3.68 per share on 1,718,-426 shares outstanding at 1956 year-end, compared with $3.01 per share on 1,722,722 shares outstanding at the close of 1955.

Carborundum paid dividends of $1.60 per share in 1956, completing the 35th consecutive year of uninterrupted dividend payments to stockholders.

Stockholders' equity amounted to $35.69 per share at the end of 1956, an increase of $2.07 per share over the previous year. Working capital increased $2,-687,082 during the year to $32,-

(*Please turn to page* 566)

Keeping Abreast of Corporate Developments

Allied Chemical & Dye Corp. and Kennecott Copper Corp. through their jointly owned corporation, Allied-Kennecott Titanium Corp., formed in 1956, has acquired a 1500 acre tract on Cape Fear River near Wilmington, N. C., as a site for new titanium processing and fabricating plant to cost an estimated $40 million. The plant will use a new multi-stage, continuous process for reduction of titanium tetrachloride with sodium to produce titanium metal sponge, which will be melted in a vacuum to produce billets for processing into mill products. The new facilities will also include a research and development laboratory, with total initial employment of 500 when plant is completed early in 1959. The estimated initial capacity is 8000 tons annually.

Aluminum Co. of America has acquired assets of Columbia River Orchards, Inc., of Wenatchee, Washington, including 1700 acres of which 500 are orchard and 400 are in wheat. Columbia will retain corporate name and continue to grow and market fruit. Aluminum Co. of America will also use the orchard as an experimental area to study effects of plant fumes and dust on fruit.

American Viscose Corp. has developed a new continuous filament rayon fibre, to be known as Super Rayflex, said to be 40% stronger than regular Rayflex. This fibre will be made primarily for industrial use. New yarn is available in 600 and 900 denier at 7 cents a pound more than regular Rayflex but claim is that tensile strength will make fabrics made with it cheaper than those of competing yarns where cost per pound of breaking strength is involved.

American Cyanamid Co. is constructing a multi-million dollar flakeboard plant on 97.5 acre tract at Farmville, N. C. Operation is scheduled to begin by January, with initial capacity of 40 million sq. ft. of ¾ inch board a year.

W. R. Grace & Co.: On July 7, Pan American-Grace Airways, Inc., owned by W. R. Grace & Co. and Pan American World Airways Inc., will inaugurate a scheduled one-plane all-cargo service between U.S. and west coast of South America. The service will operate on once-a-week basis over routes of Pan American and Panagra between Miami and Lima, Peru, with southbound flights to leave Miami on Sundays and northbound flights to leave Lima on Fridays.

Montgomery Ward & Co. has agreed, effective July 24th, to purchase 301,300 shares or about 80% of the outstanding stock of The Fair, a chain of four department stores in the Chicago area, from the Kresge Foundation at $25 a share. Following this purchase, Montgomery Ward will offer to buy remaining shares at same price, which will represent total eventual investment of over $9 million. Company also plans spending $84 million on expansion program over the next five years to include opening of new retail stores, rehabilitation of 200 other retail units, and opening of 30 catalog stores this year.

Phelps Dodge Corp. has exercised option to acquire a 51% interest in Wyoming Uranium Corp., which holds mining claims and leases in Fremont County, Wyoming. Company has been doing exploratory drilling on the property for about a year. On the basis of exploration, company estimated reserves of uranium ore total about 200,000 tons of about 0.4% uranium oxide.

Sunshine Biscuit Inc. has acquired the business and assets of Velvet Peanut Products Inc., a Detroit manufacturer and distributor of peanut butter, potato chips, and related snack products. The company indicated that the acquisition was in keeping with an earlier statement that Sunshine "is not through buying any business at the right price that fits in with the type of products it makes."

Acquisition was accomplished by means of exchange of 28,000 shares of Sunshine Biscuit for all the Velvet stock, of which there was 1010 shares outstanding as of April 30.

Union Carbide Corp. has made plans for the construction of a major chemical plant in Putnam County, West Virginia.

This expansion of operations in West Virginia is required to meet the continuing growth of the com-

(*Please turn to page* 568)

WHAT MAKES CHESSIE'S A

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SIE'S AILROAD GROW? *One of a series telling what Chesapeake and Ohio is doing to make this a bigger, better railroad.*

How do you keep track of 93,000 kittens?

Chessie's "kittens" are the 93,000 freight cars owned by Chesapeake and Ohio. At the same time, a daily average of 26,000 "guest" cars owned by other railroads move over C&O.

Shippers realize how important it is to know where their cars are at any particular time. Now, with its new Car Location Information Center—CLIC for short—Chesapeake and Ohio can tell them exactly. CLIC's 25,000 miles of servicing wires—the world's largest transportation teletype network—brings shippers the most modern systemwide car reporting methods.

Here's how it works:

As soon as a freight car moves through a classification yard or passes a major junction point on the C&O, CLIC knows it. At the Center the information is automatically recorded both in printed form and on tape. Then the CLIC machines take over, automatically teletyping to each of Chesapeake and Ohio's 56 district traffic offices the location of every car in which that office is interested.

Chessie's customers at both the originating and destination points can depend on quick, accurate car information through C&O's new electronic reporting system.

The new Car Location Information Center is another example of C&O's willingness and ability to develop fresh techniques to keep Chessie's railroad growing and going—for better service to shippers.

Each of C&O's 56 freight traffic offices, from coast to coast, from Canada to Florida, now has up-to-the-minute teletyped information on the location of all cars shipped from, or consigned to, its territory. Contact your nearest traffic office and see how this new car reporting system works for you.

Would you like a copy of a new booklet describing CLIC? Just write:

Chesapeake and Ohio Railway

3807 TERMINAL TOWER, CLEVELAND 1, OHIO

Private Investment Abroad Superior to Foreign Aid — and Why

(*Continued from Page* 523)

public utilities. The bulk of our investments in this particular industry is located in Latin America where local governments, for political reasons, frequently refuse permission for power rate increases even when production costs are forced up by inflation.

TABLE I

Net outflow of private long-term capital from the United States

Year	Net capital out-flow	Rein-vested subsid-iary earn-ings	Total of net capital outflow and reinvested subsidiary earnings	Total of net capital outflow and reinvested subsidiary earnings
	Millions of current dollars			Millions of dollars in 1955 prices
1922			822	1,442
1925			871	1,481
1928			1,310	2,164
1929			636	1,108
1946	103	303	406	549
1947	796	387	1,183	1,440
1948	790	581	1,371	1,577
1949	740	436	1,176	1,348
1950	1,116	475	1,591	1,796
1951	965	752	1,717	1,806
1952	1,064	876	1,940	2,010
1953	536	776	1,312	1,347
1954	984	644	1,628	1,650
1955	959	868	1,827	1,827

In all other industries, where the host government does not attempt to set prices, direct foreign investments are fully in line with good corporate management. In fact, in the case of some of our most important corporations, income from foreign investment has already outpaced domestic earnings. This is particularly true of the oil industry. Standard Oil of New Jersey and Gulf Oil both derived more than two thirds of their total net earnings in the last two years from foreign operations while in the case of Socony Mobile and Standard Oil of California the distribtuion between foreign and domestic income is approximately even.

TABLE II

Net capital outflow from the United States and adjusted rates of return on portfolio and direct investment[1]

	Portfolio		Direct		Portfolio plus direct	
	Outflow, billions of dollars	Rate of return adjusted for changes in capital values (percent)	Outflow, billions of dollars	Rate of return adjusted for changes in capital values (percent)	Outflow, billions of dollars	Rate of return adjusted for changes in capital values (percent)
1920-30	5.05	4.5	3.17	8.2	8.22	6.5
1931-39	−1.38	−.2	.14	2.0	−1.24	1.2
1940-45	.50	5.5	.75	5.9	1.25	5.7
1946-53	1.04	2.9	9.55	15.0	10.59	11.1
1920-53	5.21	2.9	13.61	8.6	18.82	6.4

[1]Senate Report — February 1957 — p. 5

The problem of bringing the abominably low standard of living in the world's underdeveloped areas somewhat closer to that prevailing in the economically advanced countries is one of the difficult challenges to the Free World. Each day its solution becomes more difficult since the real income level is persistently rising at a slower rate in the underdeveloped countries than in the advanced ones. Thus, the economic gap between these two parts is continuously becoming less bridgeable. What is needed therefore is a new approach on the part of both capital-exporting and capital-importing countries to encourage a higher flow of *private* investment from one to the other. Government economic aid has a part in this too. But it should be confined to that of a catalyst, accelerating the flow of private capital which must provide the vast bulk of development funds. For these funds must come forth not for political or strategic reasons but for the same kind of well-calculated business considerations which have made our own economy the world's richest and strongest. **END**

TABLE III

Yields on United States domestic and United States foreign investments, by industry, 1950 and 1951

[In millions of dollars]

	Foreign investments			Yield on domestic investments, percent
	Value outstanding	Earnings	Yield, percent	
	1950			
All industries	11,788	1,766	15.0	11.2
Agriculture	589	115	19.5	12.0
Mining and smelting	1,129	148	13.1	8.1
Petroleum	3,390	627	18.5	11.5
Manufacturing	3,831	637	16.6	14.1
Public utilities	1,425	41	2.9	6.1
Trade	762	117	15.4	11.9
Other	662	81	12.2	10.3
	1951			
All industries	13,089	2,236	17.1	9.0
Agriculture	642	140	21.8	9.1
Mining and smelting	1,317	220	16.7	6.4
Petroleum	3,703	896	24.2	11.5
Manufacturing	4,352	696	16.0	10.4
Public utilities	1,431	43	3.0	5.4
Trade	883	143	16.2	8.3
Other	762	98	12.9	9.6

Mid-Year Appraisal of the Food Processors

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costs accounted for disappointing earnings through the winter months, but more satisfactory operations are anticipated this summer, especially if seasonable temperatures encourage normal demand for ice cream. An advance in vegetable oil prices handicapped margins in "Parkay" oleomargarine output through the March quarter, but this condition is believed to have been adjusted. As a result, earnings for the year are expected to make a better comparison with 1956 than appeared for the March quarter. Maintenance of the 45-cent quarterly dividend is regarded as assured.

Borden has marked its centennial year by vigorous promotion of chemical products and other non-dairy lines. Results obtained from introduction of soluble coffee have been disappointing because of intense competition. Emphasis is being placed on malted milk, chocolate instant milk and similar items marketed through grocery channels. Despite moderate narrowing in margins, earnings have edged higher partly as a result of a change in computing depreciation for tax purposes which resulted in a saving last year of almost $2 million in tax liabilities. Results this year are expected to range slightly above the 1956 showing of $5.01 a share.

Corn Refiners and Millers Show Stability

Prospects for corn refiners and millers are tied more closely with general farming conditions than are other segments of the food processing business. It is rather remarkable that major corn refiners have been able to show a record of stable earnings when it is realized that corn prices frequently fluctuate widely. In view of the fact that corn accounts for almost two-thirds of refiners' raw material costs, it may be wondered how margins can be maintained satisfactorily at times of wide price swings without provision for comparable changes in selling prices.

Corn Products Refining, leader in the industry, has sought diversification in acquisition of a leading producer of liquid sugar used primarily in confectionery manufacturing, as well as in salad oil, starches, dog foods and other products distributed through grocers. Vigorous research and aggressive promotion of new lines should help contribute to moderate earnings improvement this year. The company has an enviable record for dividend stability in a difficult industry.

The milling industry has been confronted with a problem of reduced consumption in recent years. More and more individuals have been persuaded to watch their waistlines. Bread sales undoubtedly would have fallen more sharply than actually has been the case had not the industry taken steps to encourage substitution of whole wheat or rye and protein types of flour in bread-baking. Moreover, the leading millers have turned to promotion of cake mixes and other "convenience" packaged flour that permits establishment of higher prices for smaller amounts of processed foods.

General Mills has placed emphasis on breakfast cereals as a means of obtaining a higher return on a given amount of grain put through the milling process. Notwithstanding diversification the company remains the largest flour miller, accounting for perhaps 15 per cent of this country's requirements. Total domestic needs have remained fairly constant in recent years at about 225 million hundredweights as population gains have counterbalanced a gradual decline in per capita consumption. This company has established a consistently good earnings record and its shares have been favored by institutional investors.

The second largest miller, **Pillsbury Mills,** has endeavored to combat the downtrend in per capita flour consumption by a vigorous development of prepared baking mixes, including refrigerated biscuits. The growing market among young working couples requiring convenience products is the company's objective. Keen competition in the field seems to have posed a problem in obtaining adequate margins to support an aggressive promotion campaign. Earnings moved up sharply four or five years ago, but fell in the 1956 fiscal year. Indications point to some lessening in competition and more satisfactory results may be obtained in the coming year. The company's dividend record has been consistently steady. —END

Sugar Industry Spurred By World Demand

(*Continued from page* 530)

been unusually active since her normal 1.5 million ton surplus stock has been reduced to half that amount, and Germany has resumed her important place as a major consuming nation. And the other side of the iron curtain is also well represented in the market. In recent weeks China has been a steady buyer, and a few short months ago the Soviet Union made headline news with her large Cuban purchases at prevailing high prices. Perhaps this Russian buying touched off fears of a new siege of international tension, but in any event other consuming nations stepped up their buying at about the same time.

On the supply side, Cuba has made a belated attempt to catch up with the new demand trend, and recently the Cuban Sugar Institute raised its estimate of 1957 production by approximately 250,000 tons—but this nominal increase has had little effect on the world price, and cane sugar will probably remain in short supply until the impact of this year's drought in Cuba and hurricanes in Puerto Rico have been overcome. Other complications arise from the poor European beet sugar crop last year and the uncertainties connected with this year's crop which will prevent Cuba from re-building reserve stocks quickly.

In the United States, beet sugar producers have been enjoying higher prices too, but the percentage increases have not been nearly as great as elsewhere. The domestic price is controlled through quotas established each year by the Department of Agriculture, reducing the demand-supply relationship to a relatively minor role in fixing prices. At year end, the Department estimates the succeeding year's consumption and apportions the market among the domestic producers (including Puerto Rico and Ha-

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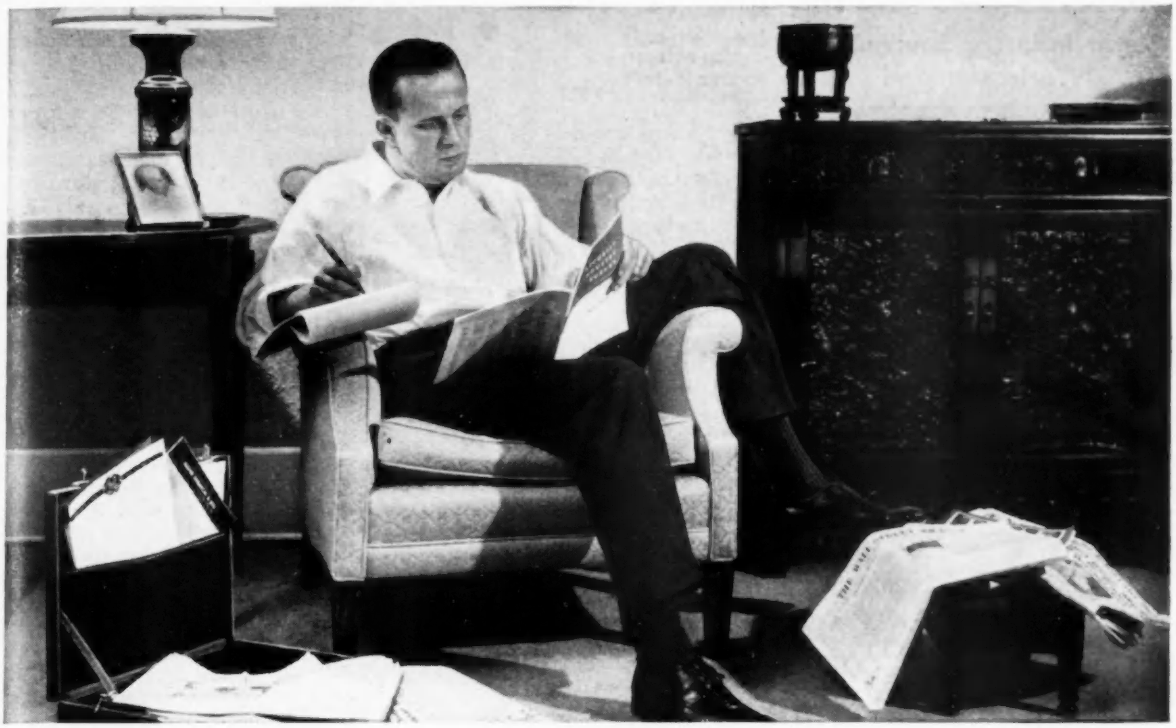

MAN AT *home* WORK

This is Account Executive Don Lane of our Newark Office spending an evening at home, doing what he is likely to be doing more nights than not after the kids have gone to bed.

It's strictly a matter of conscience. But years ago as an economics major in college when Don first got interested in the securities field, one of the things that most appealed to him about the business was its unlimited challenge—to know as much as he could about as many different companies.

That kind of curiosity in a broker is obviously worthwhile, for what he knows or doesn't know can make the difference between profit or loss to his customers.

In the office, Don spends most of his time talking with these customers—in person and on the phone. There just isn't enough time to digest the financial news of the day or to keep up with the steady flow of company reports that come to his desk from our Research Department. Hence the homework.

Actually, there's nothing new about homework to Don Lane, because he was exposed to it—on an assignment basis—almost from the first day he came to work here. That was about a dozen years ago, not long after he had put his campaign ribbons and captain's bars in the bureau drawer and applied for a place in one of Merrill Lynch's early training school classes.

Don was accepted, in good part because of his conscientiousness—a quality we've looked for in picking all the other 900 men who have been admitted to our school.

If he hadn't been earnest, Don might not have come through that six months course. By his own admission, it was "tough", with classroom sessions from 9 to 5 and a couple of hours work in the evening. When he finished though, Don knew he had a good grasp of the fundamentals of our business—stocks, bonds, and commodities . . . corporate finance and balance sheets . . . taxes and accounting . . . security analysis and portfolio management . . . Stock Exchange procedures and Merrill Lynch policies.

As a matter of fact, when he took the exhaustive examination that everyone must pass to become a registered representative with a member firm of the New York Stock Exchange, Don hit it for a solid 100.

Quite properly nowadays, Don is inclined to discount that perfect score. "The only figures I'm interested in," he says, "are the ones that show how each of my customers is doing."

Don won't talk about that record, but we can tell you his customers seem satisfied. No, they don't all make the right decision all the time—that's impossible in this investment business—but as a group they have confidence in Don and in his recommendations when they discuss their problems with him.

Because they know Don is a Merrill Lynch account executive, and that means he is a man who does his homework.

MERRILL LYNCH, PIERCE, FENNER & BEANE

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Sugar Industry Spurred By World Demand

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waii), Cuba, and the rest of the producing areas of the world. Reflecting this price-protecting mechanism, the domestic price is usually higher than world prices, but in the current scramble for the available supply the relationship has become inverted, although upward pressure on domestic prices does continue, especially on the East Coast where consumers and refiners rely on imported sugar as their principal source of supply.

Last month, in an attempt to stem the rising price tide, the Agricultural Department raised its consumption estimate from 9,000,000 to 9,100,000 tons, hoping to encourage the flow of western beet sugar to the east, since under the revised quota system established in the 1956 amendments to the Sugar Act the largest portion of the increase in consumption, over and above original estimates, is to be provided by the domestic and Puerto Rican producers. However, as is so often the case, the realities fail to square with the theory. Theoretically, an increase of 100,000 tons should exercise a depressing influence on eastern seaboard prices, but in actuality the increased tonnage reduces itself to less than 25% of that figure. For Puerto Rico has already indicated that it will have a deficit this year and will not be able to meet all its original commitments and the domestic sugar industry has not yet developed a mature enough marketing system to siphon sugar from one area of the country to another, at will. Little western sugar, therefore is actually flowing to the east and, as a matter of fact, shipments to date are running behind the rate of a year ago. Thus the 100,000 ton increase in sugar quotas is merely on paper, for it has brought forth no increased supplies to support estimated consumption. The additional 200,000 tons added to the estimate last week, may prove just as impotent.

The story of sugar this year then, is the story of prices. Only in wartime, in the past, have they been at present levels—and only in wartime have world sugar supplies approached the shortage state that now exists. But the impact on the various segments of the industry is not a simple one, nor does it strike the various producers with equal force.

Certainly the Cuban cane growers, enjoying the most active peacetime demand in history, and striving to increase production and deliver as much sugar as possible at the current attractive price level, are faring well. But the blessing is a mixed one, since other areas are encouraged to increase their production as well, and new producing countries are finding the price structure a boon to their intant industry. Spurred by the high 1952 quotations the rest of the world increased production by 25% while Cuba was striving to reduce supplies. The present market situation may well lead to the same result, although current crop failures will delay the day of reckoning.

For the short term however, the outlook is excellent. Earlier in the year, the Cuban Government authorized a 12% rise in 1957 output, but since then drought conditions have developed in some of the island's western provinces and all restrictions have been lifted. Total production for the year, therefore, will increase, but not significantly. Nevertheless, the various companies will undoubtedly thrive on the higher prices obtainable at substantially the same level of shipments as a year ago. 1957 may well be a banner year.

Cuban Producers

Short comments on important sugar producers and refiners are appended to the accompanying table, but below are some expanded comments on the major companies.

Cuban Atlantic Sugar accounts for over 10% of Cuban production. Higher selling prices in 1956 were largely offset by the ill effects of the drought condition in western Cuba. Raw sugar production advanced slightly, but refined sugar and molasses production declined sharply, holding earnings gains to a scant 7%.

In the year to end September 30, 1957 indications are that substantially the same factors were

at work during the year, but moderately larger production of all products and substantially higher prices in the world market, should lead to significantly better earnings. Nevertheless, the shares, as with most in the industry, are too speculative for the average investor.

Vertientes-Camaguey Sugar, not as severely affected by the drought and with excellent cost controls in force, increased its per share net from 71¢ in fiscal 1955 to 86¢ a year later. The company, one of Cuba's largest raw sugar producers, in common with others from the area, is benefiting from the increased world demand and higher prices obtainable in the United States. With production higher, sales should score good gains over last year's $16.5 million, and earnings improvement seems assured. However, unstable industry conditions and widely fluctuating sales and earnings reduce the stock's attraction.

Puerto Rico

Puerto Rican sugar producers enjoy a favored position in the American market, as do the Hawaiian producers, but the combination of drought and hurricane damage has seriously reduced the industry's profit potential.

Under the revised Sugar Act, Puerto Rico has obtained a larger percentage of the American market, but the series of natural catastrophes may prevent the island's producers from meeting their commitments this year. As always, crops are heavily dependent on the vagaries of the weather, seriously hampering predictability and earnings stability.

Central Aguirre Sugar, the island's largest completely integrated unit scored a sharp earnings advance in the year that ended last July, on only moderate sales gains. Substantial progress has been made in mechanizing many operations and reducing unit costs.

The company has been fortunately free of major hurricane damage, and should, therefore, be a prime beneficiary of the suspension of crop restrictions and the higher prices in force. Sales will probably show a sharp advance in the year ending July 31, and earnings should be well ahead of last year's $1.82 per share.

South Porto Rico Sugar, is one of the largest producers in

Sugar Industry Spurred By World Demand

(*Continued from page* 555)

Puerto Rico and a major producer in the Dominican Republic. Output from Puerto Rican properties enjoys favored status in the United States, but most of Dominican production goes into the world market. Earnings are unusually voltaile, therefore, but results this year should be exceptionally good, with over sixty percent of production receiving higher world prices.

Mechanization in both countries has lowered unit costs, and furfural contributes significantly to earnings. The $2.93 per share earned a year ago should be topped this year.

Domestic Industry

In the United States the beet growers are having a generally satisfactory year, but price increases have not approximated the percentage gains in world markets, and the benefits can not be expected to be as great. Drought and crop damage in some sections of the country have hurt some producers, but on the whole the industry should have little trouble meeting its quotas.

Indications are, however, that consumers in this country have adequate supplies and that in all probability, the Department of Agriculture's consumption estimates will prove too high. Nevertheless earnings may continue to improve, although the sharp advances evidenced at the close of the recent fiscal year will be hard to repeat in view of the government's determination to hold further price increases down.

Great Western Sugar, the largest and one of the more diversified beet sugar producers, scored a 25% earnings advance in the year ending February 28, 1957. With higher acreage and marketing allotments for the current year, the company should continue to do well, provided water remains plentiful and prices hold near their present levels.

The present $1.50 annual dividend payment offers an attractive yield, but coverage is small. The stock is best left alone.

Holly Sugar and **American Crystal Sugar,** the second and third ranking members of the industry are in roughly the same position as Great Western. Last year was a good one—this year appears good at this early date, but weather conditions and tight government control can lead to a sudden change of outlook.

Domestic Cane Refiners

Prices of refined sugar have advanced steadily in recent months, but not as much as raw sugar costs to the refiners. With wage and transportation costs appreciably higher and shipments running behind the level of a year ago, refining profits may dip in 1957.

American Sugar Refining, the nation's largest cane refiner scored impressive sales and earnings gains in 1956, but the outlook for 1957 is more clouded. Net income per share jumped to $3.76 from $2.90 in 1955, after adjustment for a 4 for 1 stock split in early 1957.

Although refining profits may dip, the company is also a large producer of sugar in Cuba, and price increases may help offset the refining decline. On balance, 1957 should be at least as good as 1956, provided prices remain stable. The stock trades in too wide a range for most investors.

END

As Tobaccos Face the Second Half

(*Continued from page* 533)

industry, as the makers boasted in their advertising copy that these cigarettes offer among other things, just a "hint of the mint", and the "coolness of a mountain spring".

The razor-sharp competition which has characterized the cigarette industry ever since it was spawned really steamed to the white-heat level as several mentholated brands hit the market. Although this particular type of cigarette has accounted for only a rather infinitesimal portion of the overall sales of cigarettes, this portion has been on the upswing in recent years as smokers constantly switch from one brand to another and from type to type until they feel the ultimate in taste and satisfaction has been achieved. Aware of this situation, and always prepared to seize upon an opportunity to beef up their sales and earnings, the manufacturers have sought to satisfy the whims of the smokers. This has resulted in all but one of the major cigarette producers being lured into the mentholated field. Volume in menthol smokes last year reached 4.7 billion units, or 3.8% of the industry total, and it is being forecast in tobacco quarters that further gains will

e scored this year.

Brown & Williamson's "Kools" for years are believed to have held the lead in the mentholated field; but last year R. J. Reynolds decided to challenge "Kools" and their omni-present penguins by marketing its "Salem" brand. Philip Morris quickly followed by placing a filter on its "Spud" cigarette and at the same time dressed up its package with a new crushproof flip-top box. Next came Lorillard with its new cool-tasting "Newport", and currently Liggett & Myers is marketing its mentholated smoke under the name of "Oasis". The lone manufacturer without a mentholated cigarette in the market is American Tobacco, but even this stalwart of the industry confesses that it is considering, and has been considering the menthol field for some time.

Swing to Filters Accelerating

Meanwhile, the swing toward filter tip cigarettes continues unabated. Much of the progress recorded by the cigarette manufacturers is directly attributable to rapidly increasing demand for filter tip smokes which sell at slightly higher prices than the regular brands and thus afford the makers a wider profit margin. Health-conscious smokers have been switching to the filter tips at a pace so rapid that sales of these cigarettes climbed to an impressive 30% of all cigarette volume last year and it is almost unanimously agreed both in the trade and in government circles that filter tips may account for 40% or more of the total market in 1957.

In the midst of all this turmoil enveloping the cigarette industry, manufacturers in June announced a price hike on non-filter brands which have been lagging behind in sales as the shift to filter tip preference gathered momentum. Tobacco companies lifted the price on regulars 35 cents per thousand, which resulted in a one cent a pack increase at the retail level. The advance in price was attributed to higher costs for to-

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As Tobaccos Face the Second Half

(*Continued from page* 557)

bacco, labor and advertising, the tobacco people stated.

The price increases are expected to add substantially to tobacco company earnings in view of the fact that the Department of Agriculture already has gone on record with its forecast of consumption this year moving about 3.4% ahead of last year's volume. An indication of the anticipated gains in cigarette company earnings as a result of the price increases may be gleaned from projections made by a leading statistical agency. It was estimated that the new price level would bring earnings of American Tobacco to around $9.15 per share for the year 1957, compared with $7.51 per share in 1956; Liggett & Myers, $7.30 per share, against $6.39; Lorillard, $1.95 versus $1.34; Philip Morris, $4.65, compared with $4.06, and Reynolds, $6.55, against $5.91.

Company Comments

Apropos first quarter results of the Big Five cigarette makers, R. J. Reynolds chalked up record sales and earnings as its "Camel" brand continued as the largest selling brand and also increased its share of the standard-size non-filter-tip market. This was indeed a remarkable achievement in view of the diminishing demand for the non-filtered brands. Sales for the period aggregated $236,612,000 and earnings were $15,360,000, equal to $1.47 per common share. In the like period of 1956, sales amounted to $213,201,000 and earnings of $13,565,000 were equal to $1.28 per share.

This company's "Winston" brand is the front runner in the burgeoning filter tip field and its sales through the first four months of 1957 were running considerably ahead of those in the same four months last year. "Salem", its mentholated cigarette, is showing increasing sales month by month since it hit the market last year. Stockholders were told at the annual meeting in April that the company was then in a "cash squeeze" and its short-term borrowings were about twice as high as they were at the end of 1956. The reason, it was explained, is that high quality tobacco has been in short supply and costs have accordingly risen at the same time that the company's expanded sales volume has made it necessary to purchase more tobacco. The short-term borrowings will be materially reduced before the 1957 tobacco crop is marketed, it was said.

P. Lorillard, which fell behind while the other major cigarette makers resurged markedly during 1956 and promised its shareholders that the initial three months of 1957 would bring more favorable results as the downward sales trend had been halted in the final quarter of last year, made good on its promise of better things. Sales for the quarter ended March 31, 1957, totaled $48,136,574, against $47,141,658 in the corresponding period last year. Net income for the 1957 quarter amounted to $1,192,671, equal to 36 cents per common share, compared with net of $1,124,405, or 33 cents a share. Actual increases in "Old Gold" and "Kent" sales were even higher than indicated by the first quarter figures because 1956 first quarter sales included the since sold cigar division, the company pointed out. Incidentally, reports in the trade have hinted that sales of the "Micronite" filter tip "Kent's" of this organization have been pushing steadily upward as the swing toward filters continues.

Philip Morris which has taken the initiative in packaging its cigarettes in crush-proof boxes colorfully redesigned, scored a sharp rise in sales in the first quarter this year, but earnings were virtually unchanged as increased advertising and promotion expenses prevented earnings from keeping up with the sales gain. Volume amounted to $80,189,588, against $72,218,615 in the first three months of 1956, while net income was $2,556,860, equal to 80 cents per common share, versus net of $2,530,436, or 79 cents a share, reported for the period ended March 31, 1956. Top officials of Philip Morris were hopeful around mid-year that the sales increase would continue, and they also asserted that the price increase instituted on regular types of cigarettes would aid results for the balance of the year.

First quarter sales of Liggett & Myers jumped above those for the like 1956 period, but net earnings dipped slightly. Net sales came to $132,512,000 for the March quarter, compared with $129,703,000 for the same quarter last year. Net earnings totaled $5,426,000, equal to $1.29 per share versus $5,431,000, or $1.30 per share, in the first three months of 1956. The decline in net income was attributed to higher taxes.

American Tobacco, the largest manufacturer of cigarettes, and the biggest of all the tobacco companies with its extensive line of cigarettes, cigars, and smoking and chewing tobaccos, reported that heavy advertising and sales promotion costs of "Hit Parade" filter tip cigarettes were responsible for lower first quarter earnings of the company. Sales for the March quarter aggregated $245,199,000 and net earnings amounted to $10,133,000, equal to $1.43 per share, compared with sales of $251,015,000 and net income of $11,365,000, or $1.62 per share in the first three months of 1956.

That optimism is prevalent among the tobacco companies is evidenced by the fact that at least one of the major cigarette manufacturers has announced plans for an expansion program involving considerable expenditures while others have already plunged into the diversification swim, a popular pastime in the post-war years.

R. J. Reynolds has earmarked some $35,000,000 for new cigarette making facilities in the Winston-Salem, North Carolina area. This expansion is necessary in order that the company might be able to meet increasing sales, according to a company official. Other tobacco organizations have taken their initial step to diversify their activities, with a snuff company (Helme) acquiring a pretzel manufacturer and its cookie-baking division, and Philip Morris buying up a leading producer of dairy, meat, bread and candy wrappers.

The latter two moves might sound as though the tobacco people are away off base as they enter strange, new fields of industry. But others in the tobacco industry have disclosed that they are studying closely the possibility of diversifying and that hundreds of companies in other businesses are being studied as the industry seeks a broader sale

and profits base.

Since the medical science representatives threw the smokers as well as securities of the tobacco manufacturers into a turmoil on the health issue, the market for such stocks has fared poorly. Many portfolios have been cleaned out of tobacco shares despite the fact that there are few industrial classifications which can offer comparable yields. Earnings records of the cigarette manufacturers have oustripped those of many corporations in other groups as far as consistency is concerned. The tobacco makers have met the challenge and slowly but surely appear to be regaining a foothold in the climb back to investor confidence. Sales and earnings improved in 1955, got up a more powerful head of steam in 1956, and were generally satisfactory in the first quarter of 1957. If the record consumption forecast by the Department of Agriculture, the price boost on regular types of cigarettes, expansion and diversification plans, are any criterion, cigarette makers should enjoy satisfactory earnings this year. Thus, the liberal dividends now prevailing should be maintained, imparting increased confidence to investors.

The Cigar Makers

Cigar manufacturers turned in commendable performances in the first quarter of 1957 and spokesmen for these companies expressed the belief that barring unforeseen developments and despite increased costs, sales and earnings should be very satisfactory. Sales of cigars in 1956 were reported at more than 6,300,000,000, the best year since 1929. There was a slight decline experienced in the January through April period this year, but the Department of Agriculture in mid-June predicted that consumption in 1957 will be about the same as last year's volume.

Despite the excellent sales registered in 1956, the industry still is confronted with a struggle to keep its turnover at last year's high level. This struggle involves winning the favor of women toward cigars. The industry has placed the bulk of its financial and creative efforts behind the task of winning for present and potential cigar smokers the sympathetic understanding of women, who quietly or forcefully, disapprove of the stogies.

Leaders in the manufacture of cigars reported earnings about equal to or slightly ahead of those in the first quarter of 1956. General Cigar had sales of $10,884,106 and net profit of $465,936, equal to 80 cents per share, compared with sales of $8,512,070 and net earnings of 57 cents a share in the like 1956 period. Despite a decline in sales from $8,700,000 in the first quarter of 1956 to $7,700,00 in the initial three months of 1957, net earnings of Bayuk Cigars increased from $188,952, or 24 cents a share to $199,458, or 26 cents a share. Sales and earnings of Consolidated Cigar were reported to have equalled those for the first quarter last year.

The Snuff Companies

The venerable snuff makers also comported themselves quite creditably in the opening quarter of the year. U. S. Tobacco showed sales fractionally lower and per share earnings off only one cent to 32 cents. Sales in 1957 are expected to be in line with the $27,700,000 reported for 1956. G. W. Helme made headlines and set the tobacco industry buzzing with its acquisition early this year of the pretzel manufacturer and its cookie division, as noted above. In the first quarter this year, Helme had earnings equal to 46 cents a share versus 43 cents a share in the same period last year. American Snuff's earnings fell slightly in the March quarter and for 1957 are anticipated at a somewhat lower level than the $4.05 earned in 1956. In the case of all three of these snuff makers, which have paid dividends without interruption for at least 40 years, present dividends are expected to be maintained. END

Beverage Companies Adjust to Fluid Conditions

(*Continued from page* 534)

of the 1930 depression are left behind. In addition, operating economies are anticipated as high-cost distilling facilities are withdrawn from operation.

A need for further curtailment in whiskey production is shown by the fact that stocks held in bonded warehouses at the end of last year came to more than 726.5 million gallons as measured on original entry. Thus in spite of increased sales last year of almost 8 per cent, inventories of whiskey mounted slightly for the year. Stocks in bond eight years or more are becoming greater than can be economically handled.

Under regulations prevailing since prohibition, liquor held in bond for eight years becomes subject to prevailing excise levies even if not withdrawn. The distiller has the option, however, of exporting, redistilling or destroying such inventories. Since alternatives are costly, most distillers prefer to put such whiskey on the market, and the threat of excessive supplies tends to hold down prices. Congress has shown an inclination to modify restrictions to permit whiskey in bond to be commingled with supplies not yet aged. Adoption of a measure enabling distillers to put into effect such a program would provide considerable relief. The mixed spirits would be considered to fall in the age bracket of the younger product. The industry has sought permission to extend the bonding period beyond eight years before taxes become operative.

Basis for a more hopeful outlook for companies in this category is found in the fact that encouraging progress has been made in diversification of operations and signs of more effective merchandising plans may be discerned. Promotional efforts to stimulate holiday sales by bottling popular brands in attractive decanters have proved effective. Consumers have been induced to accept straight whiskies instead of the wartime blends. Success in marketing straights at the expense of blends helped relieve pressure of aged spirits in bond. Popular straights contain as much as three times the amount of whiskey as blends, which are made up of large portions of neutral spirits.

Distillers have improved their position also by pushing vodka, a colorless and odorless beverage which gained wide acceptance in the last two or three years. This so-called Russian drink may have replaced gin to some extent in summer potables. Sales rose sharply last year and proved especially profitable. Demand for wines has lagged, however, and companies which broadened their lines of merchandise to include such products were not especially rewarded.

A study of operating results of representative distillers in recent years brings to light an evident need for diversification or for concentration of productive facilities in fewer and more efficient plants. With minor exceptions, earnings have improved little and dividends have remained the same or declined. In most instances working capital has increased only nominally or actually lost ground.

Largest of the distilling companies reviewed here, **Distillers-Seagrams** has sought to improve its results through investments in the petroleum industry. Between $35 million and $40 million appears to have been set aside for development of oil properties. Net income from the company's regular activities was substantially reduced in fiscal 1956 by reason of write-offs for intangible expenses, dry holes, etc., thereby reducing tax liabilities. In the long run, it is calculated that the ventures will prove profitable. Presumably management would consider establishment of capital gains on sale of successful ventures. Tax savings logically might accrue by adoption of such a policy.

National Distillers & Chemical embarked upon a policy several years ago of emphasizing chemical operations, which to some extent complement distilling activities. The company in cooperation with others undertook production of polyethylene, widely used in containers and other industrial products; along with agricultural chemicals. Jointly with others, National also has set out to produce zirconium products. Continued progress in chemicals promises to achieve distinct earnings improvement. The shares undoubtedly are entitled to a more generous appraisal of earning power because of the diversification and stabilizing influences of recent developments.

Schenley Industries stressed expansion and enlargement of products in a move to strengthen its position. Acquisition of a dominant position in Park & Tilford enabled the company to bolster imports of Scotch whiskey and to enlarge facilities abroad. The company has placed emphasis on straights in promotional efforts, thereby benefiting from a public preference for this type of whiskey. Keen competition in wine and beer appears to have hampered financial progress in these divisions. Pharmaceuticals remain relatively small from a sales viewpoint.

Hiram Walker-Gooderham & Worts has recorded the best showing of major distillers in recent years and has pushed up sales and earnings primarily through promoting blends. Impressive gains have been registered in distributing gin and vodka as well as in breaking into the growing market for straights.

The Brewing Industry

Adverse effects of rising costs have been more evident in the brewing industry than in distilling. Beer drinkers appear to have shown greater resistance to price increases than customers ordering liquor. Perhaps tavern patrons find that they can satisfy their thirst with fewer bottles or glasses, lingering longer over one drink than formerly. Industry statistics indicate, in any event, that consumption of beer has remained relatively static. Lack of growth scarcely can be blamed on illicit production, for there is little evidence of home brewing activity.

The brewing industry has suffered from overcapacity, keen competition, rising distribution costs and a general inability to increase retail prices sufficiently to counteract inflationary economic forces. Competition has greatly reduced the number of breweries in operation since repeal of the prohibition amendment. It is estimated that between 600 and 700 breweries started up when beer making became legal, but scarcely more than 200 remain in business now, it is believed. High costs of modern equipment have compelled small

inefficient breweries to fall by the wayside.

Mounting freight and trucking charges are posing a serious handicap for major concerns such as Anheuser-Busch, Schlitz, Pabst and Ballantine. These brewers have been accustomed to charging premium prices for their product in national markets, but distribution costs necessitate selling prices which seem prohibitive to customers. Some brewers have endeavored to meet this problem by decentralization—that is, by acquisition or construction of plants in regional areas. There is little assurance, however, that distribution costs can be held in check for long.

Beer consumption has held within a comparatively narrow range approximating 85 million barrels annually for about a decade. Heavy promotional costs incurred in an effort to boost sales have proved a serious handicap for several companes, notably **Goebel, Pabst** and **Pfeiffer. Anheuser-Busch, Canadian Breweries** and **Falstaff** have fared somewhat better. **Blatz** has experienced a substantial downtrend in volume. Prospects are not especially reassuring for breweries endeavoring to compete in national markets.

The Soft Drink Industry

Steadily mounting distribution costs have handicapped soft drink producers in much the same way as brewers have been confronted with problems. Partly because of greater freedom in marketing arrangements enjoyed in the soft drink industry, restrictive effects of delivery costs have been more readily overcome. Soft drink vendors are permitted to utilize dispensing machines, for example, and the brewing industry could not adopt this relatively inexpensive method of merchandising its wares. Coin machines which dispense bottles of soft drinks or mix concentrates with charged water are being operated in industrial plants, offices, schools and other locations where crowds gather.

Soft drink producers also have adopted popular merchandising gimmicks—such as putting beverages in large, family-size bottles, providing cartons for family packs of six bottles and also have adopted cans to some extent. Marketing soft drinks in cans has not developed the volume some visionaries had anticipated, however, for the public has resisted payment of higher prices for canned beverages. The large 26-ounce bottle promoted by major cola producers has proved popular and its adoption seems to have increased sales. Distribution costs have been reduced because one large bottle costs less to handle than three small containers.

Weather still is the major determinant of operating results in any single year for most soft drink bottlers. Steady expansion of on-premises consumption of beverages in factories and in offices promises to reduce the weather factor in years to come, for dispenser sales have gained impressive headway in plants where employees are granted regular "coffee breaks" or where they eat lunches at their machines instead of in cafeterias. Consumption of cola drinks and soda pop has increased remarkably at locations served by new machines offering a choice of several drinks shown by a selector. Because machines of the pre-mix type eliminate expensive handling of bottles, cases, etc., distribution costs are sharply reduced. Major companies are concentrating on this method of merchandising wherever facilities permit.

Canada Dry Ginger Ale, one of the most diversified producers of soft drinks, has directed its efforts primarily toward taverns, clubs and home markets rather than to automatic dispensers in offices and plants. Products include ginger ale, club soda, "mixers" for alcoholic beverages and fruit drinks. The company does not have a broadly popular cola drink. Financial results frequently are considerably influenced by distribution of imported alcoholic beverages. Earnings may be helped also by increased emphasis on its own line of Canaday Dry whiskies, cordials, gin and vodka.

Coca-Cola is by far the dominant factor in the industry with sales running well in excess of the total of its principal competitors. Inasmuch as cola drinks account for almost two-thirds of domestic soft drink sales, it is readily appreciated that this concern has solidified its competitive position. Extensive gains have been achieved overseas since World War II. Unusual promotional costs undertaken in introducing larger size bottles in plants operated by the parent company as well as among franchised bottlers apparently held down profit margins last year. With normal warm weather in the current quarter, earnings of this company should be lifted to a level comparing favorably with the 1948 peak of $8.22 a share. Management is enthusiastic over growth trends likely to develop in the next few years as the population of youngsters between 8 and 12 years of age makes its presence felt in the soft drink market.

Pepsi-Cola, second most important factor in the industry, is a closer competitor with the industry's leader than dollar volume would suggest, for larger quantities of Pepsi are offered the customer. This company appears to have strengthened its competitive position in supermarket and delicatessen distribution channels, but Coca-Cola continues to dominate the vending machine market. Pepsi is concentrating on meeting this competition in factory and office in the next year or two. The tremendous increase in the teen-age population impending as babies born during and right after the war grow up assures a rapidly expanding market for soft drink companies. —END

If Disarmament Comes—

(*Continued from page* 510)

over the capital goods markets in one of the industry's historic gluts. But for a whole broad range of industrial machinery, farm machinery, packaging machinery, conveying machinery—in short, everything but metalworking tools—the market was ripe. Corporations were highly liquid, and they had been unable to buy general machinery for five years.

Thus, both consumers and business were liquid, and in need of goods. Throughout the war, liquid saving by both business and consumers had proceeded at astounding rates—about eight times the normal rate, simply because there was nothing to spend the liquid assets on.

Today the situation is very different indeed. Consumers have not only saturated themselves with durables; they have, in the

If Disarmament Comes—

(*Continued from page* 561)

course of their buying spree, exhausted their liquidity and gone substantially into debt. Corporations, too, have greatly reduced their liquidity, although they have not yet run to anywhere near the limit of their debt-carrying capacity. On balance, these combined private sectors are *not* highly liquid, as they were in 1945; and they are *not* in urgent need of goods, as they were in the years 1945 to 1950.

But would not disarmament be accompanied by tax reductions, and would not these tax reductions in effect stimulate private demands of individuals and business? If defense spending were to decline by $5 billion, could not the whole $5 billion be passed on to consumers and business by lower tax rates, and would not the result be approximate stability?

There is no clear answer or consensus on this critical question, but there are some grounds for expecting that tax reduction would not remove all of the deflationary effects of lower defense spending. The principal reason for thinking this is that a large part of any tax reduction granted under present conditions is likely to end up as saving, rather than as spending. In the personal sector there is already considerable evidence that consumers now look more favorably on savings than they have at any time in the postwar years, and that they are less willing to engage in further borrowing. This is more or less inevitable after a decade of rapid growth in physical standards of living; a bank account looks more important than a *second* car, although eight years ago it looked less important than a *first* car.

For corporations, the case is even more conclusive that tax reduction would not yield a comparable rise in spending. This is particularly true since simultaneously with tax reduction corporations would find their defense demand declining sharply, and their capacity, adequate even now, would seem even excessive—hardly the time to spend for still more capacity. Moreover, large numbers of corporations have begun to grow uncomfortable with respect to their own liquidity—a higher level of retained earnings, thanks to tax cuts, would be welcomed as a means of rebuilding their liquid working capital, rather than of adding further to an already ample plant capacity.

Government Demand Outside Defense

In neither major sector of private demand could we thus count on much offset to a declining level of defense spending. In public demand, on the other hand, there are ample potential offsets. It would be easy, for example, to increase the rate of spending on roads, schools, water and sewage systems, bridges, institutional structures of various kinds. In these areas it might still be argued that a backlog going all the way back to World War II still exists—that we have never really caught up with postwar demand for these facilities.

Further, it could be argued that our national energies freed from defense production could be redirected into massive new foreign aid programs, to raise living standards and technology throughout the free world. Whether this would be a wise national and international policy under the circumstances likely to prevail a few years from now is, of course, an unanswerable question. But it is worth noting that additional foreign aid, and additional public works, in the face of a $5 billion decline in defense expenditures imply that government expenditures at state, local and national levels would not subside from their present $100 billion-a-year rate and, indeed, would possibly rise somewhat higher. Under these conditions, tax reduction would hardly be possible. And maintaining present tax rates would be hard to justify on the basis of foreign give-aways and public works; harder to justify than on the basis of national defense. Given the current tenor of public opinion, it is almost a political necessity that any reduction in defense spending be accompanied by a certain amount of tax reduction. Within the framework of a balanced budget, therefore, there would be little left for an expanded program of public works.

The conclusion from all of this would seem to be that while everybody wants a relaxation of national tension, and a reduction in defense outlays, it is not likely to come in a sudden break. Nor will the reduction in spending represent a bonanza to business and the consumer in the form of a massive wave of private demand, as occurred in the early years following World War II. In its early stages, it is likely to be a mildly deflationary influence on general business conditions, partly but not fully offset by the stimulative effects of tax reduction. To what extent tax reduction is likely, only the future will give the answer. While it is true that Americans everywhere are resentful over being obliged to pay taxes for foreign aid to people all over the world, they may be inclined to accept a smaller cut in taxes, or even forego a reduction, if the money were spent for domestic rehabilitation in some of our own depressed areas or to minimize the impacts of the economy's disruption resulting from a deep cut in defense spending.

The Field of Industrial Adjustment

This exploration of the general consequences of disarmament should be supplemented by some comment on its potential effects among individual industries. And here, of course, forecasts can stand on some firmer ground.

In the first instance, defense contracts are heavily concentrated among aircraft companies, electronics companies, transportation equipment (other than aircraft) companies, and instrumentation companies. For producers in these sectors, no amount of tax reduction is likely to provide any appreciable offset to the loss of defense business. Although disarmament may have a bearish connotation, still it is inconceivable that the government will again allow defense industries to fall into the state of disrepair they were in at the beginning of the Korean conflict. Obviously the government will go to great lengths to ease the adjustment period. However, we cannot expect such help for industries supplying some of the major raw materials for defense goods: aluminum and other nonferrous metals, including many of the rarer metals for which civilian applications have not yet been developed to commercial stages (titanium, for example). For petroleum producers, too, tax reduction will hardly offset the tremendous volume losses that may arise from restriction

in the production and use of defense equipment.

Consumer durables producers stand to gain somewhat from tax reduction, in the sense that it will provide a limited stimulus to the market for these big-ticket items. However, many producers of consumer durables are also in defense business, some of them substantially, and the impact of disarmament on their earnings will depend in considerable degree on the balance of their business as between defense and consumer goods.

For consumer soft goods, the case is somewhat clearer. In the main, these industries are not heavily dependent on defense business. Moreover, their consumer markets may react more favorably to tax reduction than will the markets for durable consumer goods. Soft-goods markets are not saturated, and the relatively low outlays involved are more likely to be stimulated by the small releases of income from tax reduction.

For makers of machinery and equipment purchased by business, the impact of disarmament may be as varied as the individual products of these industries. Makers of basic capacity— for example, equipment for steel mills, foundries, metal-working establishments, chemical plants, etc.—can hardly expect any offsetting gains from reduced defense demands, since basic capacity already installed will seem very adequate indeed. For these companies, the outlook cannot be considered to be favorably affected. For general industrial machinery, and processing and packaging machinery nearer the consumer end of the economy, the outcome may be less unfavorable, but still not bright. And, of course, for the makers of highly specialized machinery used in defense—for example, the very heavy presses used in aircraft wing-sections—the results could be serious indeed.

For the electronics industries, the impact of gradual disarmament would, in effect, impart a serious downward bent to their sensational growth trend. In general, these companies do substantial defense business in complex equipment, which helps to carry their enormous research outlays and cover costs in the fiercely competitive civilian markets in which these companies operate. However, the technological pace of many of these companies—notably those in the data-processing field—is rapid enough to at least partly offset the drag of falling defense business. In this industry, the smaller, less diversified companies, which have in effect lived on defense business for half a decade, may face serious, near-fatal curtailment of defense volume.

It should be added, in conclusion, that the *pace* of disarmament itself is a critical dimension of the future. If it should proceed slowly, as it is almost bound to do over the next two years, its impact on individual companies may be severe, but the rolling adjustment is not likely to affect general business conditions importantly. We can expect the securities market to anticipate and reflect these changes in individual issues. There is nothing in the outlook that warrants a seriously bearish view of the market based on a presumed sudden disarmament. —END

Concrete Results of Automation Beyond Labor-Saving

(*Continued from page* 517)

in 1955, although the labor force will increase by less than 15% in the period. Predicting business conditions so far ahead is a hazardous occupation, but the population structure as it will be then is firmly established by its composition today.

This puts it squarely up to automation to help us meet the challenge. —END

Bank Stocks as Investments Today

(*Continued from page* 525)

the Federal Reserve System for permission to form such a holding company to be known as First New York Corporation. It was planned to have it acquire the ownership of the City Bank, the City Bank Farmers Trust Co., and the big branch banking system operated throughout Westchester by the County Trust Co. of White Plains.

The announcement raised a storm of protest in New York State political circles. Governor Harriman personally denounced the plan and the State Banking Department then took steps to halt the bold venture. The New York Legislature then enacted a law designed to prevent the formation in the State of such a bank holding company owning banks in more than one banking district in the State. This temporary legislation expires May 1, 1958.

In the meantime, the Reserve Board has held hearings on the proposed plan and at present it still has the entire proceedings under consideration. A decision is expected in the very near future. Top management of the bank are confident of a green light, while some observers are not. The plan is indeed a bold one and could very well point the way for future banking expansion in the Nation. In such connection, its importance cannot be over-emphasized. Likewise, the decision to be made by the Federal Reserve officials will be one of extreme importance to all of the more than 14,000 commercial banks and bankers throughout the land.

This may prove to be the opening gong in the first round of the battle of the banking giants to gain greater control of our tremendous banking assets at a time when our economy is still in high gear and bank reserves are at a premium. Deposits must be gathered-in by the banks if they are to grow as fast as industry has. We need a strong and expand banking system to take care of the needs of this enormous demand for credit. No longer can banks depend upon retained earnings alone to build up capital structures. Many banks will be going to their shareholders for more money and more mergers will likely be engineered in the months ahead.

Whether the bank holding company is the correct answer to the problem or not, is not for us to say. However, some sort of branch expansion would seem to be necessary at this stage of the game. It is of such pressing need and the internal pressures are so great within the system that it is likely to be resolved in the near future. Big banks are needed to handle big business. Capital structures must be strengthened to bolster the huge loan accounts that are

(*Please turn to page* 564)

Bank Stocks as Investments Today

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being built up in our atom-age economy.

In view of all this, it would seem that stocks of leading big business banks should prove to be good investments and should regain popularity with both the institutional and the individual investor.

The popularity of bank stocks would be greatly increased by listing. On sober reflecting, it does somehow seem odd in this day and age of shareowner relations that no bank stock as such is listed. Undoubtedly, the stock exchange authorities would like to see the stocks listed, so the reluctance must be on the part of the bankers themselves. It would be interesting to have this rather important and provocative item thrashed out at shareowner meetings. If there is a really valid reason why bank stocks should not be listed, let us have it. At this time, the writer pleads ignorance of any such reasons.

1957 Earnings Outlook

The earnings outlook for the remainder of 1957 appears good for most banks. Those with heavy savings deposits, of course, are faced with heavy interest payments and resultant lower net earnings. This is particularly true on the west coast, where it is customary for the commercial banks to also serve as savings banks.

For the New York banks, net operating earnings were higher by about 13% or 14% in the first half-year. *Indicated* earnings for the same banks were higher by 23.5% over the like period in 1956. Sizable sums were sent to capital funds accounts after payment of increased cash dividends. Payments were nearly 12% higher than they were in the first half of last year, while the retained earnings were up by better than 40%.

Based on current prices, the price-earnings ratios for the major bank stocks stand at about 12 to 1.

Mid-year deposit totals were off slightly from those at the close of 1956. Loans and discounts were higher in almost all cases. Display statements of condition as of the close of the quarter show little or no borrowings from the Federal Reserve Bank. However, legal statements dated June 6, 1957 reveal a true picture of the banks' borrowings and reveal the tightness of the money market at that time. The fact that banks borrow from the central bank shows that they are loaned-up and are short the funds necessary to make additional loans or purchase securities. Hence, it is most revealing to learn that nearly all big banks were in to the "Fed" at June 6th. For instance, First National City Bank was borrowing $86,000,000, Manufacturers Trust $5,500,000, Chemical Corn Exchange $20,100,000, and Irving Trust the large sum of $131,500,000 which, by the way, was in excess of its capital funds of $129,293,000 on that date. Here is an insight into what has been going on for some time in the money market and brings into focus the oft-heard complaint about how tight money really is.

* * * * *

Summing up, then, we see a tight money market wherein banks are in sharp competition for the supply of reserves or deposits. We see a situation in which bank earnings are holding at near record levels in many cases and in which stockholders' equity is growing steadily and dividends are not only secure but may be increased from time to time. Price-earnings ratios are low, yields are high and the prospects are considered very favorable for the future. In such a climate there are bound to be some stocks better situated than others, and we regard all of the following as offering considerable appeal for the conservative investor who wants assured income plus cumulative enhancement in value.

The Chase Manhattan Bank, second ranking deposit holder among the New York City banks, reported a 17 percent increase in annual earnings in the first six months this year. Net operating earnings, after taxes, were $26.7 million equal to $2.06 per share compared with $22.8 million or $1.76 per share in the comparable period last year. Despite this excellent performance, this attractive stock is selling just 2 points above its 2-year low and yields almost 5 percent on its $2.40 annual dividend.

The Guaranty Trust Compa[ny] of New York, another of the na[tion's] largest banks and one note[d] for its conservative capital poli[cies], advanced its earnings 8 per cent from $2.29 per share the firs[t] half of 1956 to $2.50 per shar[e] this year. At 65–8 points below it[s] high for the year–the 80 cent quarterly dividend returns a yiel[d] just under 5 percent. In view o[f] the company's liberal dividen[d] policy a continuation of the year end extra seems assured.

Chemical Corn Exchange Ban[k] is the fifth largest in the natio[n] and one of New York City's ma[jor] branch banking institutions. Earnings for the first six month[s] of the year total $11.8 million o[r] $2.23 per share compared wit[h] just under $10 million or $1.83 [a] share a year ago. At 47, mid-wa[y] between its high and low for th[e] year, the regular $2.00 dividen[d] yields more than 4 percent.

Manufacturers Trust Compan[y] with 112 offices in the City of New York, maintains an extremely suc[cessful] retail banking operatio[n] in addition to its commercia[l] banking activities. Reflecting cur[rent] money market conditions, the company reported net earnings o[f] $2.04 per share, a sizeable advance over the $1.72 per share reporte[d] for the same period last year. In view of the excellent earnings t[o] date, the $2.00 dividend yielding almost 5 percent is the minimum expectation for the year.

Irving Trust Company (NY) reflecting increased lending activities in recent years, witnessed a further earnings advance in the first half of 1957. Net per share climbed to $1.34 from $1.19 in 1956 and under $1.00 for the same period in 1955. The stock, which trades in a narrow range, offers a 5 percent yield from the indicated $1.60 annual dividend and there is a likelihood that a year-end extra payment may be disbursed. The stock is an excellent income holding.

First National Bank of Boston, fourteenth largest in the U. S., is New England's oldest and largest banking institution. The stock, around 68, yields about 4.45% and sells at about 11 times 1957 estimated net earnings. Bank reported first-half net of $3.32 a share; 1956 full year net was $6.00 per share. Book value of shares is about $63. Earning assets about $475. 1957 range approx. 70–62¾. —END

Comparative Investment Study

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to change except to a minor extent if the price of nickel and copper hold at present levels. As pointed out, the higher price for nickel compensates for the lower copper price. It is true the first quarter earnings show a 10% decline from $1.79 in 1956 to $1.61 this year and largely reflect the drop from 45 cent copper in the first quarter of 1956 to 32 cents in the same quarter this year. Comparisons should tend to improve in the following quarters and net earnings for the full year may not vary too much from the $6.50 per share reported for 1956. Some additional income may be obtained from shipments of iron ore pellets which have been very well received by Canadian steel producers and command a premium price. The plant has an annual capacity to produce 250,000 tons of 68% iron pellets with the additional units to be added.

Over the longer term Inco should reap a handsome dividend from its 25% participation in American Metal's new Heath Steel's base metal mine in New Brunswick which has lately been brought into production.

Earnings projection for Inco by 1960 when the Mystery Lake properties are operating involves a lot of risk, but has little current market significance. However, it is well to remember that in the last decade the company has done something for stockholders every year in the nature of a cash extra or a stock dividend.

Uncertain Year for International Paper But Future Good

For International Paper the outlook for 1957 is somewhat mixed. Earnings fell off last year by 7% from 1955 but the first quarter earnings of 1957 show a much larger proportional drop. From a $1.90 per share reported in last year's first quarterly period they fell to $1.49, a decline of 22%. This was generally the case for other units in the industry and reflected tougher competition from a marked increase in production facilities and consequent difficulty in passing on higher costs. This situation may be rectified later in the year. A strong demand is expected for newsprint and magazine paper and revival of residential building should call for increased amounts of lumber, building paper and plywood. Nevertheless it is difficult to project 1957 earnings above $6.00-$6.50 a share, about 10% less than in 1956. No cash dividend increase appears likely.

The future for International Paper can be viewed with confidence. Sales from 1952 through 1956 increased from $634 million to $974 million and net profits after taxes increased from $52.1 million to $86.6 million, with profit margin rising from 8.2% to 8.6% of sales. It is likely this stable profit rate will continue.

The stock remains a favorite of institutional holders which number 290 as contrasted with 122 for Inco. Paper manufacturing is basic in the national economy and in this respect it has an appeal superior to Inco for institutional investors. Even the best mine must look forward to depletion and ultimate exhaustion of its ore reserves. That unhappy contingency does not confront the paper industry for which nature provides, under proper cultivation, a renewable supply of raw material, and International Paper Company has been one of the leaders in the conservation movement.

In summing up, it is well to remember that Inco, in the light of the condition of the non-ferrous metals market, has shown very little decline from the top, while International Paper has already made a considerable adjustment of some 40 points from its high, is therefore in a better position to react well to favorable news in its industry. —END

	International Paper	International Nickel
Current Market, 7-3-57	$105	$104
Price Range, 1957	107⅞-94¼	115⅜-98⅛
Price Range, 1956	144½-98½	112⅜-78
Dividend, 1956	$3.00 plus 3% stock	$3.75 (incl. extra $1.15)
Indicated regular dividend, 1957	$3.00	$2.60
Total Assets, Dec. 31, 1957	$765.4 million	$571.6 million
Current Assets, Dec. 31, 1957	$258.9 million	$327.1 million
Cash and Equivalent, Dec. 31, 1957	54.7 million	166.0 million
Current Liabilities, Dec. 31, 1957	72.7 million	81.6 million
Working Capital, Dec. 31, 1957	$186.2 million	$245.5 million
Ratio, Current Assets to Current Liabilities	3.6:1	4:1
CAPITALIZATION, December 31, 1956		
Funded debt	0	0
Preferred stock, shares	230,000	276,000 (since retired)
Common Stock	12,155,000	14,584,000
Book value common stock	53.83	28.03
EARNINGS		
1956, per common share	$7.05	$6.50
1955, per common share	7.58	6.14
Average, five years 1952-56	6.71	4.89
First quarter, 1957	1.49	1.61
First quarter, 1956	1.90	1.79
Price-earnings ratio, 1956	17	18
Dividend payout, 1956	43%	58%
Dividend yield, current price, Cash basis	3%	2.5%

Answers to Inquiries

(*Continued from page* 544)

138,801. Despite increased sales, inventories were reduced from $21,628,109 at the end of 1955 to $19,617,189 at the close of 1956.

For the 3 months to March 31, 1957 net sales were $27,673,350, net profit $1,468,614, equal to 85 cents per common share. This compares with the first quarter of 1956 when net sales were $25,539,328, a net profit of $1,611,685, equal to 94 cents per share.

The company invested $11,160,524 in capital assets adding important manufacturing facilities

in 1956 and plans to spend approximately $30 million for new plants and facilities during 1957 and 1958.

To help finance modernization and expansion, the company arranged to borrow $15 million from an insurance company secured by 4½% notes due October 1, 1976. During 1956 the company borrowed $5 million of the total and took down the remaining $10 million before June 30, 1957.

During 1956 a new plant at Logan, Ohio was completed and production of resin bonded grinding wheels started in October. Construction started on a new plant in Van Wert, Ohio for the manufacture of vitrified abrasive products. Construction projects will also start to increase the capacity of silicon carbide furnace plants at Vancouver, Washington and Shawinigan Falls, Quebec. Expansion of plant and facilities at Falconer, N. Y. is well along to increase production of Monofrax fused cast refractories. Construction was begun on a new plant at Parkersburg, West Virginia for production of zirconium sponge metal to fulfill requirements of a new Atomic Energy Commission contract and other customer orders. The plant was scheduled for operation prior to July 1, 1957.

With added impetus from new products, new and improved manufacturing facilities and improved selling organization, sales in 1957 are expected to exceed sales in 1956, but if unsettling conditions in the general economy arise this could adversely affect this optimistic forecast.

Current quarterly dividend is 40 cents per share.

Parker Pen Company

"I would appreciate receiving recent earnings of Parker Pen Co. and please also indicate dividend payments."

J.W., Minneapolis, Minn.

Net earnings of Parker Pen Co. increased 31% during the fiscal year ended February 28, 1957 while sales rose slightly. Reasons for the earnings rise were a reduction in expenses, and a small increase in sales.

Parker Pen Co.'s aggregate world earnings amounted to an industry-topping $2.5 million, up 38% over the previous year. Current exchange rates were used in computing the approximate earnings total, as well as a world sales figure of $35.5 million, converted to U.S. dollars.

Consolidated net earnings after taxes for the Wisconsin and Canadian companies were reported at $1,909,171, as opposed to $1,451,147 for the previous year. Net income per share was $2.08 as compared with $1.56.

A new fountain pen product, called the "61", was introduced in September 1956 following a pre-introduction testing program said to be the most extensive ever accorded a new writing instrument. The pen's basic feature of automatic clean filling, coupled with the development and marketing testing program, were credited with the product's establishment as the industry's leading prestige pen, the company states.

Book value per share as of February 28, 1957 was $21.29, compared with $20.32 in the preceding year.

Current quarterly dividend on the Class A voting and Class B common non-voting is 30 cents each per share.

The outlook over coming months appears favorable. —END

For Profit and Income

(*Continued from page* 537)

new buying . . . Timken Roller Bearing was recommended most recently in the June 8 issue at equivalent of 50 for the present shares. The issue is now around 53½. It is still reasonably priced on expected 1957 earnings and indicated longer-range potentials; and, therefore, remains suitable for current buying . . . Standard Oil of California was recommended in the May 11 issue around 51. It is currently at 58, and still one of the more attractive oils; but we are reluctant to reach for it. Pending a dip, defer buying.

Insiders

"Insider" buying or selling of a given stock is not a foolproof guide for outsiders. Reported buying may be exercise of options, at prices well under the market, involving little or no risk. Of course, buying at the market means that the insider—an officer, director or otherwise a stockholder with a 10% interest—was bullish on the stock at the time of the purchase and at the price paid. However, the reports become available some weeks after purchases are made. The insider could be less bullish on his stock by the time the reported purchase is published. Moreover, an insider's judgment is not necessarily infallible. On average, despite exceptions, officers and directors have a bias toward optimism on prospects for their companies. What insiders do on the selling side is even less of a guide. Often a partial paring of large holdings is dictated primarily by estate-tax planning considerations.

Recent Shifts

However, a preponderance of insider buying or selling in a given line of business would seem to have some general significance, even though the information can never be up to the minute. For what it may be worth, in the three months ended April 30 insider sales largely exceeded purchases in the following fields: aircraft, aluminum, building materials, chemicals, electrical-electronic, finance companies, investment companies, machinery, office equipment, oil, paper, rubber and steel. On the other hand, purchases largely exceeded sales in these lines: air transport, autos and auto parts, cement, coal mining, department stores, drugs, farm equipments, food chains, liquor, natural gas, non-ferrous metals, railroads, sugar, television, textiles and electric utilities. A goodly number of these lines—by no means all—are relatively depressed.

Whither?

An old, prominent and respected name is not an adequate reason for buying a stock or even staying with it. For example, American Bank Note sold as high as 157 in 1929 on earnings of $4.77 a share and a $3 dividend, plus 10% in stock. Its subsequent highest level was 45¼ in 1946. Since 1954 it has ranged between 32 and 27½. It is now at 28½. Earnings were $2.55 a share last year, and may be little different this year. The regular dividend is now $1.20, with a small year-end extra possible. In our view, the stock is not going anywhere and should be sold.

Tax-Exemption

You get full and permanent tax

exemption, of course, in municipal bonds, now selling on the highest yield basis in about a quarter of a century. You can get partial exemption for varying temporary periods, in some cases running for another six to eight years, in various electric utilities. Because of availability of large capital losses on some old holdings, dividends will be wholly tax free for many years to come in the case of United Corp., a closed-end investment company; and Electric Bond & Share, a utility holding company which is being transformed to an investment and service company. The former is at 7, yielding a net 5% on a 35-cent dividend, the latter at 32, yielding 4.4% net return on a recently raised $1.40 dividend. Both have merit for investors in medium-to-high income tax brackets. —END

Keeping Abreast of Corporate Developments

(*Continued from page* 546)

pany's petro-chemical business.

The new plant, scheduled for completion in 1960, will be the eighth major chemical producing plant of the company.

Armour & Co. has placed a new drug "Arcofac" on the market. It is designed to reduce cholesterol level in the blood to alleviate arteriosclerosis, heart conditions, diabetes and other diseases. The main ingredient of the new drug is oil from the seeds of safflower, a thistle-like plant grown in the Middle East. A similar product, also containing safflower seed and called "Saff" was placed on the market by Abbott Laboratories recently. Eli Lilly & Co. began offering "Cytellin" last year to control cholesterol. —END

As I See It!

(*Continued from page* 505)

service, it hardly seems likely to be enough to satisfy Russia's most famous war hero and supreme commander of Russian armor. Having taken the decisive part in two attempted palace revolts—Beria's in 1953 and the current one—it is certainly not unreasonable to suppose that Marshal Zhukov may be induced to step into the leading role—especially in view of the heady hero worship accorded him on Navy Day.

Thus, Krushchev's crown rests uneasily on his head. He is far from being another Stalin who was one of those rare men of genius—evil genius, to be sure—whose strength is such that they make history by bending it to their will. Hitler was another. So were Napoleon, Tamerlane and Alexander the Great. All of them became focal points of history and acquired a degree of personal power that staggers the imagination. Yet, after their deaths their empires fell apart.

Nikita Krushchev's tragedy is that he is a *successor*. He may strut all over Russia, playing the little father of his people; he may utter daring challenges to the West; he may drink himself full of courage and then insult even his supporters (as he recently did Tito), but he cannot fill the shoes of his predecessor who made the job so big and so awesome that no one in Russia today is able to take his place.

Virtually the only means Krushchev has to maintain himself in his job are those used by politicians anywhere: agility, flexibility, maneuvering between cliques, playing one group against another, making expediency-dictated compromises and discrediting his opponents. But of the tremendous power which Stalin had at his finger tips and with which he could annihilate his mightiest opponent—there is no sign.

But this much is clear—Soviet leadership today is intellectually bankrupt. There is no ideology left (for Marxism-Lenism as a doctrine is no longer important in the formation of Soviet policy) —they lack the missionary zeal which carried the original revolutionaries to the heights that stirred the people to great sacrifice. In fact, they have lost contact with their people and exist today merely as the vested interest of a privileged bureaucracy, fighting to maintain its position.

That alone, however, as history has shown time and again, has never been reason enough for any clique or class to succeed in staving off its doom. And as Marx said in one of his most lucid moments, the seeds of doom are contained in the "in-fighting" of the ruling class.

The Trend of Events

(*Continued from page* 504)

otherwise occupies himself with public business not directly touching fiscal policy – sound money, pay-as-you-go, get out of debt. But the circumstance of the Finance Committee makeup hems him in with politics-minded democratic associates, and with republican fellow-committmen who are not especially distinguished either in the field of practical politics or of monetary matters.

On the democratic side is Robert S. Kerr of Oklahoma, an out-and-out politician who tried for the presidency last year. Clinton P. Anderson of New Mexico, former House member, former Cabinet member, is a party strategist of top rank. Paul Douglas of Illinois, professor who has all the textbook material and tables needed to make any witness look good, or bad, as he decides. Also on the committee are Albert Gore of Tennessee, J. Allen Frear of Delaware, Russell B. Long of Louisiana, George A. Smathers of Florida.

The republican side of the committee comprises Edward Martin of Pennsylvania, John J. Williams of Delaware, Ralph E. Flanders of Vermont, George W. Malone of Nevada, Frank Carlson of Kansas, Wallace F. Bennett of Utah, William E. Jenner of Indiana. Each might rate the "conservative" label and be most happy to wear it. Williams has made his mark as a Senator principally on his crusades against Federal tax loopholes and correcting "mistakes" in administration of the tax law. Carlson was considered for Ike's first Secretary of the Treasury. Malone and Jenner are GOP partisans who should be able to supply the political counter-irritant but are busy mending their political fences against unfriendly winds that are blowing.

The inquiry isn't attracting the notice it was expected to receive. It deals with a subject that is difficult to dramatize; therefore, when a partisan Senator lambasts the White House or the Treasury, it received concentration of notice as the lone product of the study.

Meanwhile the Byrd Committee seems bent on demolition rather than constructive effort. —END

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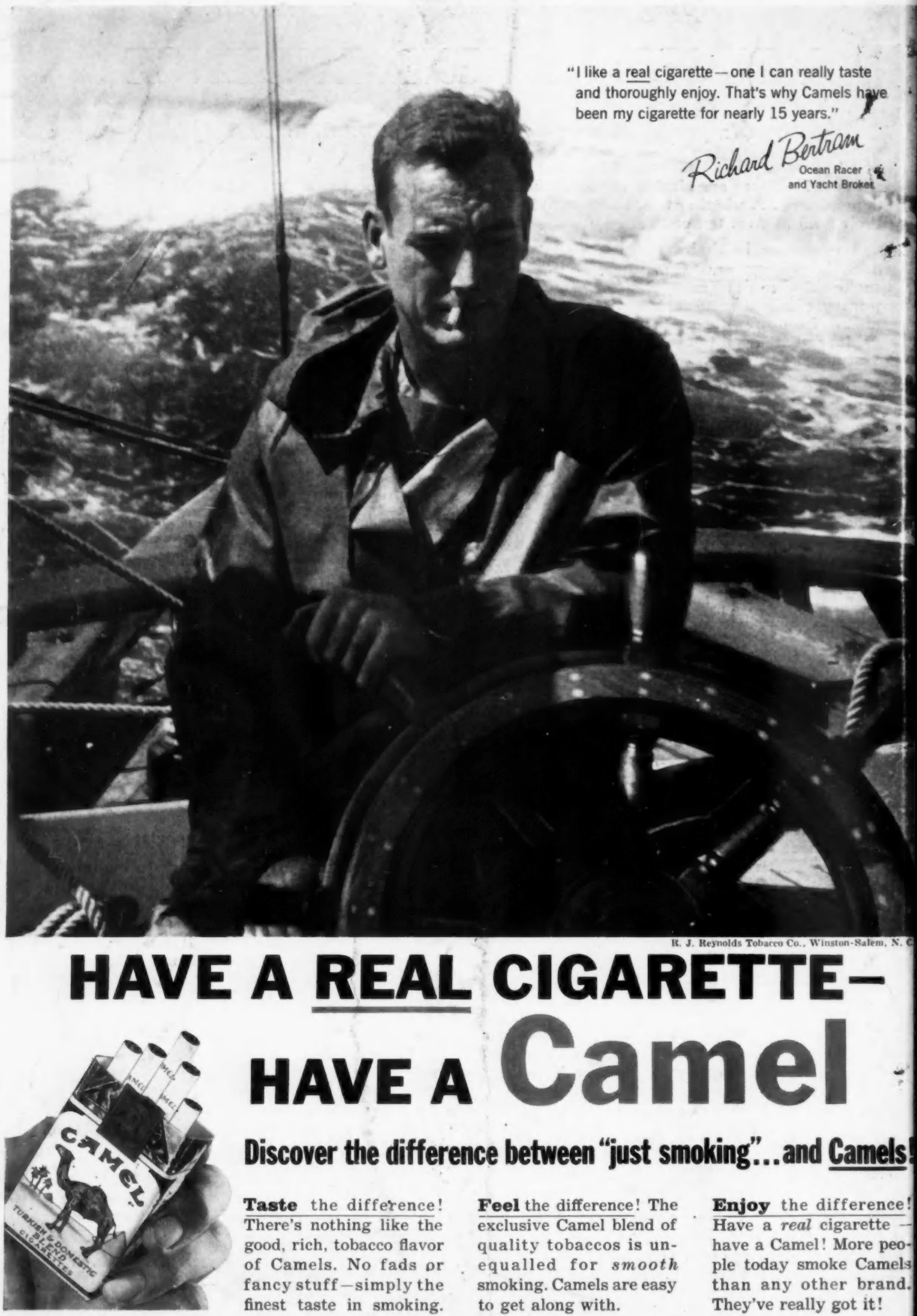
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